

Audit

Report



OFFICE OF THE INSPECTOR GENERAL

MANAGEMENT OF ACCESS TO THE DOD SUPPLY SYSTEM

Report No. 95-142

March 10, 1995

20000202 060

Department of Defense

Additional Copies

To obtain additional copies of this report, contact the Secondary Reports Distribution Unit, Audit Planning and Technical Support Directorate, at (703) 604-8937 (DSN 664-8937) or FAX (703) 604-8932.

Suggestions for Future Audits

To suggest ideas for or to request future audits, contact the Planning and Coordination Branch, Audit Planning and Technical Support Directorate, at (703) 604-8939 (DSN 664-8939) or FAX (703) 604-8932. Ideas and requests can also be mailed to:

Inspector General, Department of Defense
OAIG-AUD (ATTN: APTS Audit Suggestions)
400 Army Navy Drive (Room 801)
Arlington, Virginia 22202-2884

Defense Hotline

To report fraud, waste, or abuse, contact the Defense Hotline by calling (800) 424-9098; by sending an electronic message to Hotline@DODIG.OSD.MIL; or by writing the Defense Hotline, The Pentagon, Washington, D.C. 20301-1900. The identity of each writer and caller is fully protected.

Acronyms

DoDAAC	DoD Activity Address Code
FSC	Federal Supply Class
GFM	Government-Furnished Materiel
MCA	Management Control Activity
NSN	National Stock Number
OC-ALC	Oklahoma City Air Logistics Center



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884



March 10, 1995

MEMORANDUM FOR ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT)
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Audit Report on Management of Access to the DoD Supply System
(Report No. 95-142)

This audit report is provided for review and comments. This report is the second of two reports from our audit of contractor and agency use of DoD activity address codes. In this report, we address DoD management of access to the DoD Supply System. Management comments from the Air Force Materiel Command, the Defense Logistics Agency, and the Defense Finance and Accounting Service on a draft of this report were considered in preparing the final report. As a result of management comments, we added one recommendation, redirected one recommendation, revised two recommendations, and renumbered the other recommendations accordingly. The Oklahoma City Air Logistics Center, the Marine Corps, and the Navy did not comment on a draft of this report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. Therefore, we request that the Navy, Air Force, Marine Corps, and Defense Logistics Agency, provide comments on this report by May 9, 1995. Recommendations are subject to resolution in accordance with DoD Directive 7650.3 if management nonconcurs or does not comment.

Please contact Mr. Joseph P. Doyle, Audit Program Director, at (703) 604-9348 (DSN 664-9348) or Ms. Linda A. Pierce, Audit Project Manager, at (703) 604-9346 (DSN 664-9346) if you have any questions on this audit. To suggest ideas for future audits, contact the Audit Planning and Technical Support Directorate at (703) 604-8939 (DSN 664-8939). We appreciate the courtesies extended to the audit staff. The distribution of this report is listed in Appendix H. The audit team members are listed inside the back cover.

David K. Steensma
Deputy Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 95-142
(Project No. 3CK-0031.01)

March 10, 1995

MANAGEMENT OF ACCESS TO THE DOD SUPPLY SYSTEM

EXECUTIVE SUMMARY

Introduction. This report is the second of two reports from our audit of DoD activity address codes. This report addresses the results of our review of the implementation of the management control activity concept and the management of the DoD activity address file. The first report, Inspector General, DoD, Report No. 94-119, "Accounts Receivable for DoD Materiel," June 3, 1994, discusses delinquent accounts receivable balances for materiel that contractors purchased from the supply system.

Each DoD Component that authorizes Government-furnished materiel to be provided to contractors is required to assign DoD activity address codes to customers and to establish management control activities to validate and approve contractor requisitions. Contractors and agencies with valid DoD activity address codes and knowledge of military standard requisitioning and issue procedures can order from the Defense supply systems, except for controlled items such as drugs and precious metals. As of June 1993, the DoD activity address file contained 94,593 DoD activity address codes for DoD contractors and non-DoD agencies.

Objectives. The overall audit objective was to evaluate the effectiveness of DoD policies and procedures for authorizing DoD contractors and non-DoD agencies to use DoD activity address codes to obtain materiel from the DoD supply system. This report discusses the implementation of the management control activity concept and the management of the DoD activity address file data. We also evaluated the effectiveness of internal controls as they applied to the audit objectives.

Audit Results. Despite audit reports and congressional concerns, DoD organizations did not fully implement policies and procedures on the use of DoD activity address codes. We did not identify any contractors that misused the supply system.

The Air Force did not adequately control or monitor Government-furnished materiel supplied to Air Force contractors. As a result, Air Force contractors had excessive access to the DoD supply system, and the Government faced increased risk of DoD materiel being misused without being detected (Finding A). The Army Audit Agency recently identified similar problems in the Army.

The DoD activity address file contained a significant number of invalid and inactive DoD activity address codes and management control activity designations. The existence of invalid and inactive DoD activity address codes and management control activity designations in the file increases the risk of abuse of DoD activity address codes to gain unauthorized access to the DoD supply system and weakens internal controls over DoD materiel resources.

Of the 7,242 contractor DoD activity address codes in the DoD activity address file, we identified that 6,105 of the contractor DoD activity address codes were inactive. We estimate that about 23 percent of the inactive contractor codes were invalid. For the

87,351 civil agency DoD activity address codes, about 96 percent were inactive. Only 2 of the 75 Navy management control activity designations were in use (Finding B).

Internal Controls. The audit identified material internal control weaknesses. The Air Force at Oklahoma City Air Logistics Center, Tinker Air Force Base, Oklahoma, did not adequately implement the management control activity concept to provide proper controls over Government-furnished materiel supplied to Air Force contractors. The Air Force internal management control program did not identify the weaknesses. See Part I for internal controls reviewed and Part II for details of the weaknesses.

Potential Benefits of Audit. Strengthening the internal controls over DoD materiel will decrease the risk of undetected misuse or waste of DoD materiel. See Appendix F for a summary of all benefits resulting from the audit. We could not determine the amount of potential monetary benefits resulting from the audit because we do not know whether any DoD activity address codes were misused or what materiel will be obtained by contractors in the future.

Summary of Recommendations. We recommend that:

- o the Air Force improve the Government-furnished materiel validation and reconciliation processes and distribute the Government-furnished materiel status reports to contract administration offices,
- o the Oklahoma City Air Logistics Center follow procurement procedures and properly modify contracts for new Government-furnished materiel requirements,
- o invalid DoD activity address codes and management control activity designations be deleted from the DoD activity address file,
- o policies be implemented to improve internal controls over the DoD activity address file data, and
- o the Defense Automatic Addressing System Center identify inactive DoD activity address codes and request the corresponding service points to verify the status of each code.

Management Comments. The Air Force Materiel Command agreed to improve the Government-furnished materiel validation and reconciliation processes and to distribute the Government-furnished materiel status reports to contract administration offices. The Defense Logistics Agency agreed to delete invalid DoD activity address codes from the DoD activity address file. Both the Defense Logistics Agency and the Defense Finance and Accounting Center implemented procedures to improve internal controls over the DoD activity address file data. We did not receive management comments from the Oklahoma City Air Logistics Center, the Marine Corps, or the Navy. For a summary of management comments, see Part II. For the complete text of management comments, see Part IV.

Audit Response. We appreciate the actions planned and already taken by the Air Force Materiel Command, the Defense Finance and Accounting Service, and the Defense Logistics Agency. As a result of the management comments received, we added one recommendation, redirected one draft recommendation, revised two draft recommendations, and renumbered the other recommendations accordingly. The Navy, the Air Force, the Marine Corps, and the Defense Automatic Addressing System Center are requested to provide written comments on the final report by May 9, 1995.

Table of Contents

Executive Summary	i
Part I - Introduction	
Background	2
Objectives	3
Scope and Methodology	3
Internal Controls	6
Prior Audits and Other Reviews	7
Part II - Findings and Recommendations	
Finding A. Internal Controls Over Government-Furnished Materiel	10
Finding B. Management of DoD Activity Address File Data	19
Part III - Additional Information	
Appendix A. Criteria to Control Access to DoD Materiel	32
Appendix B. Statistical Sampling Plan and Results	34
Appendix C. Summary of Prior Audits and Other Reviews	36
Appendix D. DoD Activity Address Codes for Bankrupt Contractors	40
Appendix E. Navy Organizations That Should Not Be Designated Management Control Activities	41
Appendix F. Summary of Potential Benefits Resulting From Audit	42
Appendix G. Organizations Visited or Contacted	44
Appendix H. Report Distribution	48
Part IV - Management Comments	
Air Force Materiel Command Comments	52
Defense Logistics Agency Comments	56
Defense Finance and Accounting Service Comments	68

This report was prepared by the Contract Management Directorate, Office of the Assistant Inspector General for Auditing, DoD.

Part I - Introduction

Background

The DoD supply system supports more than 500 military installations around the world, all weapon systems including ships and aircraft, and other equipment and vehicles essential to our military forces. DoD provides materiel to Government entities, both DoD and non-DoD, and to contractors with Government contracts. To control access to the DoD supply system and to maintain accountability for the materiel issued, DoD established internal controls through standard DoD-wide policies and procedures. See Appendix A for detailed criteria for providing materiel to DoD supply system customers.

Materiel Management Within DoD Supply Systems. Inventory control points in each Military Department and the Defense Logistics Agency have primary responsibility for materiel management in DoD. The military standard requisitioning and issue procedures prescribe the processes by which authorized customers, including contractors, obtain materiel from the DoD supply system. Materiel is grouped by type into Federal supply classes (FSC). Specific items of materiel within each FSC are identified by a national stock number (NSN).

DoD Activity Address Codes. Procurement contracting officers authorize Government-furnished materiel (GFM) to be provided to contractors and request the assignment of DoD activity address codes (DoDAACs) to contractors. The DoD supply system requires the contractor to have a DoDAAC to access the DoD supply system. Contractors and agencies with valid DoD activity address codes and knowledge of military standard requisitioning and issue procedures can order almost anything from the Defense supply systems, except for controlled items such as drugs and precious metals. The DoD activity address file is the central file of DoDAAC information for all DoD customers and is maintained at the Defense Automatic Addressing System Center in Dayton, Ohio. As of June 30, 1993, the file contained 94,593 DoDAACs for DoD contractors and non-DoD agencies.

DoD Service Points. DoDAACs are controlled through service points established by each Military Department. Service points direct the Defense Automatic Addressing System Center to add DoDAACs to the DoD activity address file and to delete DoDAACs when they are canceled by the authorizing activity. Service points also direct the Defense Automatic Addressing System Center to make any needed revisions, such as address changes, to the DoD activity address file. For all civil agencies, the Federal Supply Service, General Services Administration, is the service point. Generally, procurement contracting officers from the authorizing agency provide the service points with updated address information for changes, additions, and deletions to the DoD activity address file.

Management Control Activity Concept. DoD established management control activities (MCAs) at inventory control points to validate and approve contractor GFM requisitions. The purpose of the validation is to ensure that

contractors receive only the materiel authorized by contract. Table 1 shows the number of MCAs in each Military Department and the Defense Logistics Agency.

Table 1. Number of DoD Management Control Activities

<u>Organizations with MCAs</u>	<u>Number of MCAs</u>
Army Inventory Control Points	6
Navy Systems Commands	75
Air Force Air Logistics Centers	5
Marine Corps Inventory Control Point	1
Defense Logistics Agency Supply Centers	<u>6</u>
Total	<u>93</u>

Property Administrators. Property administrators have an important role in safeguarding Government property in the possession of contractors. Property administrators review contractor property control systems to determine whether the systems are adequate to protect Government property and to ensure that the contractor is abiding by the established controls that the Government approved. Because contractors maintain the only accountable records of Government property, the property administrator checks the contractor inventory to verify the accuracy of the records and to determine whether all Government property is accounted for.

Objectives

The overall audit objective was to evaluate the effectiveness of DoD policies and procedures for authorizing DoD contractors and non-DoD agencies to use DoDAACs to obtain materiel from the DoD supply system. This report discusses the implementation of the MCA concept, the management of DoD activity address file data, and the effectiveness of applicable internal controls. Our first report on this audit discusses delinquent accounts receivable balances for materiel that contractors purchased from the DoD supply system.

Scope and Methodology

Audit Locations. We selected Army, Navy, Air Force, and Defense Logistics Agency inventory control points to review the implementation of the MCA concept. We also selected the service points for each Military

Introduction

Department, the Defense Logistics Agency, and the General Services Administration, along with the Defense Automatic Addressing System Center, to review the management of the DoD activity address file data.

o For the Army, we reviewed only the Army Tank-Automotive Command because of an ongoing Army Audit Agency project involving GFM at other Army inventory control points.

o For the Navy, we reviewed both of the Navy inventory control points: the Naval Aviation Supply Office and the Navy Ships Parts Control Center.

o For the Air Force, we reviewed one Air Force inventory control point, the Oklahoma City Air Logistics Center (OC-ALC), because OC-ALC processed a high volume of requisitions for GFM.

o For the Defense Logistics Agency, we reviewed the Defense Electronics Supply Center and the Defense Industrial Supply Center.

We attempted to contact all of the Navy organizations designated as MCAs that were not inventory control points to determine how many were actually performing the MCA mission. We also contacted Defense contract management area operations offices and Defense plant representative offices to determine whether they received GFM status reports from the Air Force air logistics centers and to determine how the offices used the GFM status reports.

Limitations to the Scope. We limited the scope of our review of the implementation of the MCA concept in the Air Force and the Army because of the validation methods used, prior and ongoing audit coverage, previously reported conditions that had not changed, and prior recommendations that had not been implemented. We were unable to review all 75 Navy MCAs because not all MCA-designated organizations existed and because not all MCA-designated organizations had assigned people to the MCA.

Air Force. We limited our review to GFM issued for maintenance contracts because of the Air Force practice of validating to the FSC level, a practice contrary to the MCA concept. We did not expand our audit effort to other air logistics centers because it was evident that the conditions we observed at OC-ALC had existed for years, that the conditions had been previously reported, and that, despite previous identification, the conditions remain uncorrected. Although the Air Force concurred with the previous reports on the subject of the control of GFM, we saw no substantive improvement in Air Force control of GFM.

Army. We discontinued our work at the Army Tank-Automotive Command at the end of the audit survey because of an audit in the process of being completed (Report NR 93-2, "Materiel in the Custody of Contractors, U.S. Army Tank-Automotive Command," January 15, 1993) by the Army Audit Agency, separate from the Army-wide effort.

Navy. We attempted to contact all 75 Navy MCAs; however, the Navy could not provide points of contact for all of them. Some of the organizations

Introduction

did not exist or were reorganized. We were able to contact 14 Navy MCAs by the end of the audit field work to determine whether they had a requirement to perform GFM requisition validations.

Air Force. We used statistical sampling techniques to conduct our review of the Air Force MCA validation of GFM requisitions at OC-ALC. We obtained a sample of 360 requisitions. We discontinued our review after completing analyses of 207 requisitions, valued at \$16.7 million, on 11 maintenance contracts, because we did not identify problems or issues that were not already known. The OC-ALC universe was 54 maintenance contracts with 15,569 requisitions, valued at \$68.6 million. The requisitions occurred during the 6-month period from January 1, 1993, through June 30, 1993. We also randomly selected Government property administrators responsible for monitoring GFM on Air Force contracts. We contacted the property administrators to determine whether they received and were using GFM status reports to independently verify that contractors were reporting all GFM received.

DoDAAC Sample. Using stratified random sampling, we statistically sampled 290 DoD contractor DoDAACs and 100 civil agency DoDAACs from the DoD activity address file to determine the validity of the codes. Using the results, we made statistical projections of invalid DoDAACs to the DoD activity address file. See Finding B and Appendix B for details.

Use of Computer-Processed Data. We did not rely on computer-processed accounting records of the Air Force Contract Depot Maintenance Production and Cost System (G072D). Air Force management has previously agreed that the system has a material accounting system deficiency as defined by the Federal Managers' Financial Integrity Act, and the deficiency was not corrected by August 1994.

We verified the accuracy of computer-processed data used in our review of Navy and Defense Logistics Agency MCAs and found the data to be reliable. We discontinued our work in the Army, and computer-processed data were not a factor.

To achieve the audit objectives, we relied on computer-processed data in the DoD activity address file. Our review of the DoD activity address file indicated that about 23 percent of the inactive DoD contractor DoDAACs in the DoD activity address file are invalid. However, when these data are viewed in context with other available evidence, we believe that the opinions, conclusions, and recommendations in this report are valid. Our recommendations should reduce the number of invalid DoD contractor DoDAACs in the DoD activity address file.

Statistical Sampling. The Quantitative Methods Division, Audit Planning and Technical Support Directorate, Office of the Assistant Inspector General for Auditing, DoD, provided us with technical expertise in selecting statistical samples, making statistical projections, and identifying DoDAACs with no activity.

Introduction

Audit Period and Standards. This economy and efficiency audit was made from February 1993 through August 1994 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD. We included such tests of internal controls as were considered necessary. Appendix G lists the organizations visited or contacted during the audit.

Internal Controls

Review of Internal Controls. The internal controls applicable to the management of access to the DoD supply system at Navy and Defense Logistics Agency audit locations and the management of the DoD activity address file data were reviewed and deemed to be effective because no material weaknesses were disclosed.

Review of DoD Internal Management Control Program. We reviewed the Air Force Materiel Command's implementation of the DoD Internal Management Control Program at OC-ALC. Our review included an evaluation of internal controls applicable to the validation and accounting for GFM provided to OC-ALC maintenance contractors through the MCA.

We identified material internal control weaknesses as defined by DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987. The Air Force Materiel Command internal management control program failed to prevent or detect the internal control weaknesses because the Air Force rated the supply operations area as low risk and did not identify the MCA as a separate assessable unit.

Adequacy of Internal Controls. The Air Force at OC-ALC did not adequately implement the MCA concept to provide proper controls over GFM supplied to Air Force contractors and could not independently determine the GFM shipped to contractors. The Air Force granted contractors access to GFM by FSC. This practice gave contractors excessive access to DoD materiel. We believe that this problem extends to all Air Force air logistics centers because the computer systems are common to all air logistics centers.

We did not receive any data from the Air Force Materiel Command to prove that the same procedures are not being used at all air logistics centers. Recommendation A.1., if implemented, will correct the internal control weaknesses. The potential monetary benefits associated with implementing these recommendations are undeterminable because the amount of GFM that contractors will order in the future is unknown. See Appendix F for a summary of potential benefits resulting from the audit. Copies of the report will be provided to the senior official responsible for internal controls in the Department of the Air Force.

Prior Audits and Other Reviews

Since 1967, the General Accounting Office; Inspector General, DoD; Army Audit Agency; Air Force Audit Agency; and congressional committees have raised concerns about the financial accountability and controls for GFM provided to contractors. See Appendix C for details. The General Accounting Office noted that DoD did not establish independent controls to provide accountability over GFM from receipt by a contractor to use on a contract or return to DoD. In Report No. NSIAD-88-99 (OSD Case No. 7458), "Air Force Can Improve Controls Over Contractor Access to DoD Supply System," March 18, 1988, the General Accounting Office found the following.

- o Air Force procedures for validating and approving maintenance contractor GFM requisitions did not limit contractors' requisitions of GFM to the specific parts and quantities required for contract purposes.
- o Property administrators were not using the GFM status reports to monitor GFM at contractor facilities.
- o The Air Force did not have independent financial accounting systems to provide accountability and control over GFM from receipt by a contractor to use on a contract or return to DoD.

After the 1988 General Accounting Office report was issued, accounting responsibility for GFM transferred from the Air Force to the Defense Finance and Accounting Service. However, the computer system that the Defense Finance and Accounting Service relies on to account for GFM provided to contractors remains an Air Force system. All accounting changes required by the Defense Finance and Accounting Service must be approved and funded by the Air Force.

This page was left out of original document

Part II - Findings and Recommendations

Finding A. Internal Controls Over Government-Furnished Materiel

The Air Force did not adequately control or monitor GFM supplied to Air Force contractors. GFM was not adequately controlled or monitored because the Air Force did not fully implement the MCA concept and did not provide property administrators with GFM status reports to verify the control of GFM at contractor facilities. In addition, the Air Force did not have an independent financial accounting system that adequately accounted for GFM supplied to Air Force contractors. As a result, contractors have excessive access to the DoD supply system, and the Government faces increased risk of DoD materiel being misused without being detected.

Background

DoD Financial Management Consolidation. The Defense Finance and Accounting Service was established in January 1991 to consolidate DoD accounting and finance functions. The Defense Finance and Accounting Service is made up of centers, responsible for functional missions, and Defense accounting offices and site offices, responsible for servicing specific locations or organizations. The Defense accounting offices and site offices generally use the finance or comptroller regulations of the Military Department of the activity being served. The Defense Finance and Accounting Service is in the process of standardizing the regulations for all Defense Finance and Accounting Service activities.

Production Management Specialists. Air Force production management specialists assigned to air logistics centers coordinate transactions for all aspects of materiel management. The production management specialist responsibilities include ensuring that parts are available when requested, that contractors receive only those parts authorized, and that funding is available. In addition, the production management specialist is responsible for expediting GFM requests or authorizations and for reconciling differences between contractor and Government GFM records.

Control of GFM in the DoD Supply System

The MCA concept as implemented by the Air Force did not always validate contractor requisitions to specific national stock numbers (NSNs) and to specific quantities of materiel required to perform maintenance contracts. Instead, the Air Force MCAs often validated only to the FSC level, which meant that

Finding A. Internal Controls Over Government-Furnished Materiel

contractors had access to GFM that was not required to fulfill the terms of the contracts. In addition, OC-ALC officials did not obtain approval from contracting officers to modify contracts before approving FSCs that were not already specified in the contracts. Validating GFM requisitions to the FSC level and allowing contractors to requisition materiel in FSCs not included in contracts gave contractors excessive access to GFM in the DoD supply system.

Access to GFM by FSC. Air Force MCAs and production management specialists did not restrict contractor access to GFM in the DoD supply system to specific predetermined items and quantities of materiel. The Air Force allowed DoD contractors access to entire FSCs, which gave contractors access to thousands of items not needed to accomplish the contracts.

Access to GFM at OC-ALC. Of 50 contracts at OC-ALC, 18 contracts (36 percent), with about \$135.7 million (98 percent) of the dollar value of GFM provided to contractors, authorized contractors access to GFM in the DoD supply system by FSC. Table 2 shows the number and value of maintenance contracts and the value of GFM provided to contractors broken down by the type of access to GFM in the DoD supply system (FSC or NSN) for OC-ALC as of December 31, 1993.

Table 2. GFM Provided to Contractors on Contracts at OC-ALC

Type of GFM Access	Number of Contracts	Contract Value	Value of GFM Provided
By NSN	32	\$ 14,280,006	\$ 2,747,118
By FSC	18	<u>427,539,069</u>	<u>135,702,732</u>
Total	<u>50</u>	<u>\$441,819,075</u>	<u>\$138,449,850</u>

Repeat Findings in Prior Audits. Prior audits have reported the same facts as this report, cited internal control weaknesses, and identified specific contractors that had access to and that ordered unneeded materiel. A 1986 Air Force Audit Agency audit reported that 33 of 180 requisitions reviewed were for items not required to repair the items in the contract, and that 637 units of materiel, valued at \$334,000, were obtained by the contractor but were not authorized or needed for the contract.

In 1988, the General Accounting Office reported on the access to GFM by FSC and recommended that maintenance contracts list the parts and quantities that the contractors were authorized to obtain whenever feasible. The Air Force concurred with the recommendation but continued to allow maintenance contractors access to GFM by FSC. We identified contracts at OC-ALC that granted contractors access by FSC to GFM in the DoD supply system. Although in our sample we did not identify contractors that had requisitioned

Finding A. Internal Controls Over Government-Furnished Materiel

unneeded parts, the Air Force was unable to provide us with evidence that the problems identified in the prior Air Force and General Accounting Office reports were corrected.

We believe that granting contractors access to GFM in the DoD supply system by FSC continues to be a material internal control weakness and places DoD materiel at undue risk.

Production Management Specialists Role in Validating GFM Requisitions. Production management specialists at OC-ALC stated that they could not always determine from the contract terms what parts were needed to complete repairs. One contract for periodic depot maintenance of the KC-135 aircraft cited manuals, technical orders, and other specifications as references for specific parts to determine the GFM authorized. The production management specialist had to research voluminous files to determine whether GFM being requisitioned by the contractor was authorized. This kind of time-consuming process prompted the Air Force to use the FSC instead of the NSN in the GFM validation process for 18 of the 50 contracts at OC-ALC.

Justification for Access by FSC. The MCA validation by NSN of contractor requisitions for GFM was hindered by inaccuracies in materiel requirements lists, constraints on computer systems, and the workload resulting from manual validation. As a result, the Air Force permitted contractors to access GFM in the DoD supply system by FSC without requiring any justification for not validating by NSN. As long as contractors filled in their requisitions properly and only requested items within authorized FSCs, GFM was automatically provided. OC-ALC production management specialists stated that, on large contracts with automated systems authorizing GFM by FSC, requisitions for unintended GFM were unlikely to be detected. Production management specialists believed that the only way that such requisitions might be caught was if the contractor used an incorrect FSC or ordered an unusually high dollar amount or quantity.

Accuracy of Materiel Requirements Lists. Production management specialists at OC-ALC stated that the major obstacle to authorizing GFM for contractors by NSN and quantity had been and continues to be the inaccuracy of the parts lists (which includes the materiel requirements list and the purchase request support list) for an end item. The parts lists identify the specific items that belong to an end item and, if accurate, would provide the basis to identify specific items and quantities of GFM to be authorized. The Air Force Materiel Command official responsible for the lists stated that funds were not available to improve parts lists. When we tried to verify requisitions to parts lists, we also encountered incomplete information that slowed our efforts to determine whether contractors were receiving authorized GFM items.

Constraints on Computer Systems. Two computer system constraints prevented the MCA from using the computer to validate all requisitions to the NSN. Neither constraint is likely to be resolved soon.

Finding A. Internal Controls Over Government-Furnished Materiel

First, the MCA computer validation program would not accept more than 99 NSNs. Listing all potential parts by NSN in the MCA system was physically impossible. However, by listing a few FSCs, generally the DoD supply system could accommodate all of the needed parts. This solution created an internal control weakness, however. The access by FSC allowed access to both needed and unneeded parts. We suggest that the 99 most commonly required parts could be listed in the MCA system to allow the computer to validate requisitions for those parts to the NSN. The number of remaining parts actually requisitioned may then be few enough to be manually validated to the NSN.

The second computer system constraint was that the parts lists were not linked to the MCA computer system. Because the parts lists were separate from the MCA system, manual validation of GFM requisitions to the NSN required a manual review of the parts lists. If the parts lists were automated and could be linked to the MCA system, the MCA system would not need its own capacity to list all of the possible parts.

Manual Validation of GFM Requirements. We agree that manual validation of thousands of parts on large maintenance contracts may be burdensome; however, the production management specialist could manually validate by NSN contracts with fewer than 600 requisitions over a 6-month period. Over a 6-month period, the workload averages out to 100 requisitions per month, 25 per week, 5 per day. As many as 99 of the most commonly requested parts can be input into the MCA system to allow computer validation of those requisitions, thus reducing the manual validation requirements by that much.

Of the 18 maintenance contracts we reviewed at OC-ALC, 4 contracts had between 50 and 600 requisitions over a 6-month period, and 12 contracts had fewer than 50 requisitions. Only 2 contracts had more than 600 requisitions (9,104 and 1,079) over a 6-month period. For those larger-volume contracts, validation by FSC is the only alternative until the computer systems are changed. For the smaller volume contracts, however, manual validation would be a feasible way to reduce the risk to DoD materiel resources. The manual validation processes could be enhanced by use of personal computers and database packages. As an added benefit, manual validation may be used to improve the accuracy of the parts lists by identifying data that are incorrect or outdated.

Formal Approval and Contract Modification for GFM. An OC-ALC production management specialist approved GFM requisitions for six supply classes not authorized in contract F34601-90-C-1991 without obtaining or documenting approval from the contracting officer. Although the Federal Acquisition Regulation requires contracting officers to approve, in writing, any modification to the original contract, the production management specialist did not believe that the formal process of modifying the contract was cost-effective. As a result, the contractor obtained \$808,351 of GFM not specifically authorized by the contract.

Finding A. Internal Controls Over Government-Furnished Materiel

When we followed up on the GFM, the OC-ALC contracting officer stated that the parts from the additional supply classes were needed to support the contract and that the action of the production management specialist expedited the GFM requisitioning process. However, the contracting officer agreed that the actions of the production management specialist to approve parts not authorized by the contract were not proper. According to the 1988 General Accounting Office report, GFM authorizations were modified without formal contract approval. The General Accounting Office did not make recommendations on this issue because Air Force contracting officials stated that the practice of approving requisitions without proper contract terms in place would be discontinued immediately. Our review showed that the practice has not stopped.

The staff at the Defense Finance and Accounting Service Defense accounting office at Wright-Patterson Air Force Base stated that they were attempting to identify contractors that received GFM not authorized by contract. If the initiative is successful, contractors will be denied GFM access until contract modifications are executed. In the meantime, the Air Force should enforce the existing standard procurement policy.

Monitoring Government-Furnished Materiel

Property and financial records do not provide the additional safeguards needed to protect DoD materiel from misappropriation. The Air Force did not provide property administrators with GFM status reports to use to verify contractor inventories of GFM. In addition, production management specialists did not reconcile Air Force and contractor records of GFM.

Providing GFM Status Reports to Property Administrators. The Air Force did not provide property administrators with GFM status reports to use to verify contractor records of GFM received. Each Air Force air logistics center that executes a contract authorizing GFM was supposed to mail a quarterly GFM status report to the cognizant property administrators. The GFM status report identified GFM that was shipped or rejected for each contract during the quarter. Government property administrators at Defense plant representative offices and Defense contract management area operations offices stated they received GFM status reports from the San Antonio Air Logistics Center, Texas, but that they almost never received GFM status reports from the other four air logistics centers. Property administrators stated that, when GFM status reports were received, the property administrators used them to independently verify that the contractor reported all GFM received. Without the status report, the property administrators verified GFM to the contractor records, relying entirely on the contractors to report all GFM received. In those cases, property administrators had no independence.

The Air Force did not ensure that the GFM status reports were distributed, and the Air Force could not provide us with a list of individuals responsible for sending the reports and updating the addresses. In addition, the mailing

Finding A. Internal Controls Over Government-Furnished Materiel

addresses on the reports we examined were out of date by about 4 years. The addressees were for the old Defense contract administration services management areas and Defense contract administration services plant representative offices that were changed in February 1990. The Air Force stated that the Defense Logistics Agency should provide updated address information, but the Air Force could not identify the individual in the Air Force responsible for updating the Air Force GFM status report system with the new addresses. The Defense Logistics Agency published a handbook, the "DoD Directory of Contract Administration Services Components," DLAH 4105.4, in January 1991, that updated address information as well as points of contact and telephone numbers for all contract administration organizations DoD-wide.

Government property administrators are the last line of defense in protecting DoD's materiel resources, and we believe that the property administrators need an independent Government record of the GFM shipped to contractors. The Air Force GFM status report provides such a record and the Air Force needs to take its distribution more seriously by ensuring that the report is updated and issued each quarter.

Reconciliation of Differences Between Air Force and Contractor Records. The Air Force did not have an independent financial accounting system to adequately account for GFM supplied to or received from Air Force contractors. Major differences existed between Air Force and contractor GFM records. The OC-ALC largest periodic depot maintenance contract showed a difference of about \$40.7 million of GFM between Air Force and contractor records as of December 1993. The difference will not be resolved until the Air Force performs a reconciliation.

Production management specialists did not have management reports that detailed the differences between Air Force shipping records and contractor receiving records for GFM. Such reports were necessary to reconcile differences between Air Force and contractor GFM records. As a result, the Defense Finance and Accounting Service did not maintain adequate Air Force accounting records to determine the value of GFM provided to contractors. Without a full reconciliation, the Air Force will not be able to resolve the differences and know the actual value of GFM provided to contractors. The Air Force was working on a system of management reporting that would facilitate such a reconciliation.

In-transit GFM balances should be reconciled within 180 days of the completion of repairs using GFM. We identified repairs that had been completed for an average of 1.5 years, some for almost 6 years, and the in-transit GFM records had not been reconciled. In-transit GFM records included 30 completed contracts that were more than 180 days old and showed in-transit GFM that had not been reconciled. Table 3 shows that contractor records and Air Force records are not reconciled. The Air Force should develop management reports that identify the difference between Air Force and contractor GFM records.

Finding A. Internal Controls Over Government-Furnished Materiel

Table 3. GFM In Transit to the Contractor or Government With Repairs Complete for More Than 180 Days
(Some contracts appear more than once in this table)

Number of Contracts	<u>GFM In Transit to the Contractor</u>	
		<u>Discrepancy</u>
7	\$116,000 more GFM shipped on Government records than contractor shows received.	
21	\$3.8 million more GFM received on contractor records than the Government shows was shipped.	
Number of Contracts	<u>GFM In Transit to the Government</u>	
		<u>Discrepancy</u>
18	\$5.3 million more GFM shipped on contractor records than the Government shows received.	
5	\$105,000 more GFM received on Government records than the contractor shows was shipped.	

Conclusion

Controls over GFM have not improved despite numerous prior reports detailing the same weaknesses. The Air Force continues to give contractors excessive access to DoD materiel by allowing contractors to requisition GFM by FSC. Not only were the Air Force validation and accounting systems not fixed, but the Air Force failed to utilize the one useful tool that did exist, the quarterly GFM status reports. Even if a contractor obtains unauthorized materiel, good GFM controls at the contractor facility will maintain the Government's title to the property. The Air Force will remain vulnerable to contractors who may make unauthorized or unneeded requisitions until the Air Force implements internal controls that limit exposure.

Recommendations, Management Comments, and Audit Response

A.1. We recommend that the Commander, Air Force Materiel Command, improve the MCA process by:

a. Establishing criteria for validating Government-furnished materiel to the national stock number level.

Finding A. Internal Controls Over Government-Furnished Materiel

Management Comments. The Commander, Air Force Materiel Command, concurred with the recommendation but suggested that we direct a portion of the recommendation to the Joint Logistics Systems Center. The Air Force Materiel Command provided an estimated completion date for research to develop procedures for manual input of NSNs.

Audit Response. We consider the Air Force Materiel Command comments responsive. We did not redirect the recommendation to the Joint Logistics Systems Center, because our recommendation was not addressing the specific system initiative identified in the Air Force comments. Our intent was for Air Force Materiel Command to work within the current Air Force system to maximize the validation to the NSN level while waiting for the Joint Logistics Systems Center tasking to be completed. We appreciate the Air Force research efforts initiated in response to this report. We request the Air Force Materiel Command to provide the completion date for the actions to implement the recommendations after the research is complete.

b. Establishing procedures for written justifications before granting contractors access to the DoD supply system by Federal stock class rather than national stock number.

Management Comments. The Commander, Air Force Materiel Command, concurred with the recommendation.

Audit Response. We consider the Air Force Materiel Command comments responsive. We request the Air Force Materiel Command to provide the completion date for the actions on the recommendation in response to the final report.

c. Improving the accuracy of materiel requirements lists and purchase request support lists that identify the specific items and quantities for Government-furnished materiel validation.

Management Comments. The Commander, Air Force Materiel Command, concurred with the intent of the findings, stating that the lists were both working as designed and that no deficiencies have been documented by the users. The Air Force Materiel Command stated that any inaccuracies in the lists are a result of interface problems and that further research is needed to determine the extent of interface problems. The Air Force Materiel Command provided an estimated completion date for research to determine the extent of the interface problem.

Audit Response. We consider the Air Force Materiel Command comments partially responsive. We disagree with the Air Force position that the materiel requirements lists are working as designed. Air Force personnel stated that problems with materiel requirements lists have not been fixed. We saw some of those problems and believe that this area deserves management attention. In addition, a prior General Accounting Office report concluded that the materiel requirements lists needed improvement. While resolving interface problems may improve the accuracy of the lists, the materiel requirements lists need more improvements. We request the Air Force Materiel Command to provide additional comments to the final report.

Finding A. Internal Controls Over Government-Furnished Materiel

d. Developing procedures for proper distribution of the Government-furnished materiel status report to contract administration offices, including updating the contract administration office addresses, and assigning responsibilities for the report distribution at Air Force Materiel Command and all air logistics centers.

e. Developing management reports that identify differences between Air Force shipping records and contractor receiving records for GFM.

Management Comments. The Commander, Air Force Materiel Command, concurred with the recommendations and will have completed the actions by March 1, 1995.

A.2. We recommend that the Commander, Oklahoma City Air Logistics Center:

a. Require the contracting officer to modify contract F34601-90-C-1991 to reflect Federal supply class or national stock numbered Government-furnished materiel needed to perform the contract but not previously included in the contract terms.

b. Require production management specialists to obtain a contract modification from the contracting officer before approving Government-furnished materiel not previously authorized in the contract.

c. Reconcile differences between Air Force and contractor records of Government-furnished materiel on closed contracts.

Management Comments. The Commander, Oklahoma City Air Logistics Center, did not comment on a draft of this report. Therefore, we request that the Commander, Oklahoma City Air Logistics Center, provide comments to the final report.

Finding B. Management of DoD Activity Address File Data

The DoD activity address file contained invalid DoD contractor DoDAACs and Navy-designated MCAs. We estimate that approximately 23 percent of the inactive DoD contractor DoDAACs in the DoD activity address file were invalid. Invalid DoD contractor DoDAACs remained in the file because the sponsoring activities did not notify the service points that the DoDAACs should be deleted. Also, invalid Navy-designated MCAs existed because the Navy assigned MCA designations to organizations that did not have a requirement to validate contractor requisitions for GFM and the Navy did not update the MCA designations as organizations changed. Invalid DoDAACs and MCA designations in the DoD activity address file increase the risk of abuse of the DoD supply system and weaken internal controls over DoD materiel resources.

Identification of Invalid Contractor DoDAACs

The DoD activity address file contained invalid DoD contractor DoDAACs. A comparison of DoDAACs in the DoD activity address file with a materiel release order history file showed that approximately 84 percent of contractor DoDAACs in the DoD activity address file had no requisitions processed through the Defense Automatic Addressing System Center from August 1, 1992, through June 30, 1993 (11 months). We have classified these DoDAACs as "inactive." We estimate that about 23 percent of the inactive contractor DoDAACs may need to be deleted from the DoD activity address file.

Inactive DoDAACs in the DoD Activity Address File. As of June 30, 1993, the DoD activity address file contained 7,242 DoD contractor DoDAACs. Of the 7,242 DoDAACs, we identified 6,105 inactive DoDAACs (84 percent) at the Defense Automatic Addressing System Center during the 11-month period. Table 4 shows the distribution of inactive contractor DoDAACs among the Military Departments and the Defense Logistics Agency.

Finding B. Management of DoD Activity Address File Data

Table 4. Universe of Inactive Contractor DoDAACs in the DoD Activity Address File

	Total DoDAACs	Inactive DoDAACs	Percent of Inactive DoDAACs
Air Force	1,611	1,341	83
Defense Logistics Agency	769	745	97
Marine Corps	305	291	95
Navy	1,501	1,293	86
Army	<u>3,056</u>	<u>2,435</u>	80
Total	<u>7,242</u>	<u>6,105</u>	84

DoDAACs That Should Be Deleted. We statistically sampled 290 of the DoDAACs that had no activity at the Defense Automatic Addressing System Center during the 11 months. We refer to these DoDAACs as inactive DoDAACs. We sent questionnaires to each service point, requesting the status for each inactive DoDAAC. In this report, we classify as invalid all inactive DoDAACs that should have been deleted but remained in the DoD activity address file. The sample breakdown and results of our review, with corresponding statistical projections, are presented in Table 5.

Table 5. Inactive Contractor DoDAACs in the DoD Activity Address File

	Inactive DoDAACs	DoDAACs Reviewed	DoDAACs That Should be Deleted		
			Actual	Projected	Percent
Air Force	1,341	60	34	760	57
Defense Logistics Agency	745	50	27	402	54
Marine Corps	291	40	27	196	68
Navy	1,293	60	2	43	3
Army	<u>2,435</u>	<u>80</u>	<u>0</u>	<u>0</u>	0
Total	<u>6,105</u>	<u>290</u>	<u>90</u>	<u>1,401</u> *	23

*We estimate that between 1,197 and 1,606 DoDAACs should be deleted. Our best estimate is 1,401 at a 95 percent confidence level.

Air Force Contractor DoDAACs. We estimate that 760, or 57 percent, of the inactive Air Force contractor DoDAACs in the DoD activity address file may be invalid. From our sample, we identified 34 invalid contractor DoDAACs. In addition, we identified two Air Force contractor DoDAACs that were not

Finding B. Management of DoD Activity Address File Data

part of our sample that were invalid because they belonged to bankrupt contractors. See the Bankrupt Contractors With DoDAACs section in this finding for more details. As a result of our audit, the Air Force service point reported taking action to delete the invalid DoDAACs identified in our sample.

Before March 1994, the Air Force service point sent validation letters to sponsoring organizations to update DoDAAC status. In March 1994, the Air Force service point created a report to identify all Air Force contractor DoDAACs for each contract administration office. The report was sent to all Defense contract management area operations offices, Defense plant representative offices, and other applicable contracting offices, such as the Air Force air logistics centers. A cover letter provided instructions for updating DoDAAC status.

The Air Force was in the process of updating Air Force Regulation 400-11, "Maintaining Activity Address Data in the DoD Activity Address File (DoDAAF), and the DoD Activity Address File and Directory (Air Force D124 System)," December 17, 1982. We recommend that the Air Force incorporate the DoDAAC report and corresponding validation procedures into the update.

Defense Logistics Agency Contractor DoDAACs. We estimated that 402, or 54 percent, of the inactive Defense Logistics Agency contractor DoDAACs in the DoD activity address file may be invalid. From our sample, we identified 27 invalid contractor DoDAACs that the Defense Personnel Support Center identified as canceled in November 1993. As of January 4, 1994, however, the Defense Logistics Agency service point had no record of the cancellations, and the DoDAACs remained valid in the DoD activity address file. The Defense Personnel Support Center was the sponsoring agency and was responsible for notifying the Defense Logistics Agency service point of the cancellations. In addition, we identified three Defense Logistics Agency contractor DoDAACs that were not part of our sample that needed to be deleted because they belonged to bankrupt contractors. See the Bankrupt Contractors With DoDAACs section in this finding for more details.

Defense Logistics Agency service point procedures are defined in Defense Logistics Agency Regulation 4000.4, "Activity Address Data in the DoD Activity Address Directory (DoDAAD) and the DoD Activity Address File (DoDAAF)," July 23, 1992. See Appendix A for details. The Defense Personnel Support Center was not in compliance with the Defense Logistics Agency regulation because they had not submitted DoDAAC cancellations for the 27 invalid DoDAACs that we identified.

Marine Corps Contractor DoDAACs. We estimated that 196, or 68 percent, of the inactive Marine Corps contractor DoDAACs in the DoD activity address file may be invalid. From our sample, we identified 27 contractor DoDAACs that the service point identified as canceled on December 11, 1993. However, as of February 16, 1994, the codes were still in the DoD activity address file and were considered valid. We were not able to determine why the Marine Corps service point had not notified the Defense Automatic Addressing System Center to cancel the DoDAACs.

Finding B. Management of DoD Activity Address File Data

The Marine Corps service point sent letters to Marine Corps contractors annually to update DoDAAC status. If the service point did not receive a response to a validation letter within 30 days, the service point sent another letter to the contractor. According to the service point, "if there is no response to the second follow-up letter and research indicates the contractor is no longer doing business with the Marine Corps, a letter is sent to the contractor advising them that deletion action has been taken." The Marine Corps service point had written standard operating procedures for the annual DoDAAC update process.

Although sending letters annually helps clear the system of invalid DoDAACs, the procedure does not ensure timely updates. Contractors could have DoDAACs that are no longer needed for more than a year before the service point annual validation would discover them and direct the Defense Automatic Addressing System Center to delete the DoDAACs from the DoD activity address file.

Army Contractor DoDAACs. All 80 sample Army contractor DoDAACs were valid. We attribute this condition to the recommendations implemented from prior Army Audit Agency reports. See Appendix C for details. However, we identified two Army contractor DoDAACs that were not part of our sample that needed to be deleted because they belonged to bankrupt contractors. As a result of our audit, the Army service point has deleted the codes. For details see the Bankrupt Contractors With DoDAACs section of this finding.

The Army service point procedures for updating the DoD activity address file were the most effective that we reviewed during the audit. The Army service point assigned DoDAACs by contract and sent a computer-generated letter to the sponsoring agency 90 days before the expiration date of the contract associated with each DoDAAC. The letter gave the sponsoring agency an opportunity to update the status of the DoDAAC and request an extension if needed. A follow-up letter was forwarded 30 days before the expiration date of the contract if no response was received to the 90-day letter. If a response was not received to the 30-day letter, the DoDAAC was automatically canceled by the Army service point on the date the contract expired. Those procedures are contained in Army Regulation 725-50, "Requisitioning, Receipt, and Issue System," October 1990, Chapter 9, "DoD Activity Address Directory (DoDAAD) and DoD Activity Address Code to Unit Identification Code (DoDAAC/UIC) Procedures."

Navy Contractor DoDAACs. We estimate that 43, or 3 percent, of the inactive Navy contractor DoDAACs in the DoD activity address file may be invalid. We identified two Navy contractor DoDAACs that were invalid because the contracts had expired. The two contractors kept their DoDAACs for about 4 extra months before the Navy service point deleted the DoDAACs from the DoD activity address file.

The Navy has designated the Defense Finance and Accounting Service Cleveland Center as its service point. The Navy service point procedures were similar to those of the Army. The Navy service point also used validation letters. However, the letters were generated from a monthly report of contracts that expired the previous month. We believe that the Navy service point

Finding B. Management of DoD Activity Address File Data

procedures could be improved to reduce the time between the contract expiration and DoDAAC cancellation by generating reports and sending letters at least 1 month before the contracts expire.

Bankrupt Contractors With DoDAACs

We identified six DoD contractors in bankruptcy status that still had DoDAACs even though they did not have any reason to access the DoD supply system. The Defense Logistics Agency provided us with a list of 297 contractors in bankruptcy status. We matched those contractors against the DoD activity address file to determine whether any of the contractors still had DoDAACs in the file. We identified 15 contractors with DoDAACs in the file as of May 2, 1994. We contacted the applicable Defense contract management area operations offices to determine the type of bankruptcy (reorganization or liquidation) and whether or not the contractor still had a need to access the supply system. Nine of the contractors still had a valid reason to maintain their DoDAAC. However, six contractors did not have any reason to requisition materiel from the supply system, and their DoDAACs should have been deleted. Details for each of the six contractors follow. A summary listing of the contractors are in Appendix D.

Airspace Technology Corporation. Airspace Technology Corporation filed Chapter 7 (liquidation) bankruptcy on April 12, 1993. All of its Government contracts have been terminated.

Dynamic Flight Structures, Incorporated. Dynamic Flight Structures, Incorporated, has not existed since January 1994.

Gulf Apparel Corporation. Gulf Apparel Corporation is no longer in business. The company filed Chapter 7 bankruptcy many years ago. All bankruptcy actions are complete and the company is totally dissolved.

Happy Penguin, Incorporated. Happy Penguin, Incorporated, filed Chapter 7 bankruptcy on December 10, 1990.

Sew-Rite, Incorporated. Sew-Rite, Incorporated, was issued only one DoD contract that was terminated for default on September 8, 1988. This contractor is no longer in business.

Short Electronics, Incorporated. Short Electronics, Incorporated, is no longer in business.

During the first phase of this audit, which produced Inspector General, DoD, Report No. 94-119, "Accounts Receivable for DoD Materiel," June 3, 1994, we identified a contractor who had gone bankrupt and the Government terminated the contract for default. The contractor DoDAAC was not promptly canceled and the contractor was not cut off from the supply system. As a result, the contractor obtained more than \$76,000 of materiel after the contract was

Finding B. Management of DoD Activity Address File Data

terminated for default. This example clearly illustrates that a risk of contractors abusing the DoD supply system exists when DoDAACs that should have been canceled are left valid.

Civil Agencies With DoDAACs

We determined that 84,247 (96 percent) of the 87,351 civil agency DoDAACs were inactive at the Defense Automatic Addressing System Center from August 1, 1992, through June 30, 1993. We selected 100 statistical sample DoDAACs and requested the General Services Administration to provide the status for each code. The Federal Supply Service, General Services Administration, responded that, according to their system, all of the DoDAACs that we inquired about were valid. However, we question the validity of the response. The General Services Administration did not contact the agencies sponsoring the DoDAACs and did not provide us with any information as to why the codes had not been used for so long. We determined that two of the supposed valid DoDAACs were assigned to judges who were deceased for at least 5 years.

As a result of the 84,247 inactive DoDAACs and the two invalid DoDAACs that we specifically identified from our sample, we suspect more civil agency DoDAACs are invalid.

Because approximately 50 percent of all DoDAACs are assigned to civil agencies, we feel that invalid civil agency DoDAACs are a significant problem. Invalid DoDAACs not only encumber the DoD activity address file but also increase the risk of abuse of DoDAACs to gain access to the DoD supply system. Therefore, the Defense Automatic Addressing System Center should request the General Services Administration to validate all of the inactive civil agency DoDAACs by contacting the sponsoring activities. If the General Services Administration does not receive a confirmation from the sponsoring agencies, the DoDAACs should be canceled.

We have coordinated our audit with the Assistant Inspector General for Auditing, Office of the Inspector General, General Services Administration, who will be sent a copy of this audit report.

Organizations Designated as Navy MCAs

The Navy designated 75 organizations as MCAs; however, we could only confirm that 2 of the 75 designated organizations validated contractor requisitions for GFM. Navy systems commands are responsible for identifying and authorizing GFM to be provided to contractors and for designating MCAs to verify that GFM requisitioned from the DoD supply system by contractors is authorized by the contract terms. See Appendix A for a summary of criteria to

Finding B. Management of DoD Activity Address File Data

control access to DoD materiel, including Secretary of the Navy Instruction 4440.32A, "Control of Contractor Access to DoD Material Inventories and Determinations for the Supply of Government Furnished Material," September 27, 1991.

Navy-Designated MCAs Reviewed. We tried to contact all 75 Navy-designated MCAs to determine whether the organizations implemented the MCA concept; however, the Navy was unable to provide points of contact for 61 of the 75 Navy-designated MCAs. We were able to review 14 designated MCA organizations. Of the 14 MCAs, only the Naval Aviation Supply Office and the Navy Ships Parts Control Center were implementing the MCA concept. Both organizations are Navy inventory control points. Of the other 12 Navy-designated MCAs, five no longer existed, and seven did not have a mission to validate contractor requisitions for GFM. The results of our analysis of the 12 organizations designated as MCAs are as follows.

Naval Air Systems Command. Six Naval Air Systems Command organizations designated as MCAs should not be MCAs.

o Five technical representative detachments were abolished. The five abolished detachments still had valid DoDAACs that should have been deleted from the DoD Activity Address File.

o One organization that was listed as the Naval Air Development Center had changed its name to the Naval Air Warfare Center more than 3 years ago. The Naval Air Warfare Center stated that it was not aware that the Navy had designated it as an MCA and had no contracts that authorized contractors to order GFM from supply system inventories.

Naval Sea Systems Command. Five Naval Sea Systems Command organizations designated as MCAs should not be MCAs.

o Two organizations, Supervisor of Shipbuilding, Conversion and Repair, Newport News, and Supervisor of Shipbuilding, Conversion and Repair, Portsmouth, were aware that they were designated as MCAs. However, neither organization performed as an MCA because neither organization allowed contractors direct access to the supply system. Both organizations requisitioned materiel on behalf of the contractor.

o Naval Weapons Station, Yorktown, Virginia, was aware of the MCA concept but had never performed the MCA mission of GFM validation and did not see a future need to be an MCA.

o Naval Sea Logistics Center did not recognize the term MCA. The Naval Sea Logistics Center was involved in the assessment of Navy performance, monitoring supply readiness, logistic data base processing, and policy and procedure writing for the Naval Sea Systems Command. Naval Sea Logistics Center did not procure or supply parts and, therefore, was not involved with GFM transactions.

o The Norfolk Naval Shipyard did not recognize the term MCA.

Finding B. Management of DoD Activity Address File Data

Space and Naval Warfare Systems Command. The Naval Electronic Systems Security Engineering Center occasionally had some contracts that authorized GFM. Although designated as an MCA, the center was not aware of the MCA concept.

Because an MCA designation carries requisition approval authority, the Navy should have designated as MCAs only those organizations that validate contractor requisitions for GFM. We have concluded that 12 of the 14 Navy-designated MCAs were invalid, and we question the validity of the remaining 61 Navy MCA designations. See Appendix E for a list of the Navy organizations with invalid MCA designations.

Recommendations, Management Comments, and Audit Response

Added, Redirected, Revised, and Renumbered Recommendations. As a result of management comments, we added Recommendation B.1.e., redirected draft Recommendation B.2.c. and renumbered the recommendation as B.3. We revised draft Recommendation B.2.d. and renumbered the recommendation as B.2.c. We revised draft Recommendation B.4. and renumbered the recommendation as B.5. We renumbered the remaining recommendations accordingly.

B.1. We recommend that the Commander, Air Force Materiel Command:

- a. Direct the Air Force service point to cancel the 34 invalid contractor DoD activity address codes from the DoD activity address file.
- b. Direct the Air Force service point to cancel the two bankrupt contractor DoD activity address codes from the DoD activity address file (Appendix D).
- c. Direct the Air Force service point to update the status of inactive DoD activity address codes identified by the Defense Automatic Addressing System Center.
- d. Incorporate the new DoD activity address code report and corresponding validation procedures used by the Air Force service point into the update of Air Force Regulation 400-11, "Maintaining Activity Address Data in the DoD Activity Address File (DoDAAF), and the DoD Activity Address File and Directory (Air Force D124 System)," December 17, 1982.

Management Comments. The Commander, Air Force Materiel Command, concurred with the recommendations. However, the Air Force Materiel Command stated that there was no information on file about the two contractors filing bankruptcy and that there was an open contract with one of the

Finding B. Management of DoD Activity Address File Data

contractors. The Air Force will delete the DoDAACs for the contractors. The Air Force Materiel Command will have completed the actions by March 31, 1995.

Audit Response. We consider the Air Force Materiel Command comments responsive. We reconfirmed our information on the bankrupt contractors with the respective administrative contracting officers. One contractor filed Chapter 7 bankruptcy and the other contractor was no longer in existence. Any open contract with either of these contractors is questionable at best.

e. Terminate all open contracts with the bankrupt contractors identified in this finding.

Management Comments. We added Recommendation B.1.e. to this final report and request comments from the Air Force Materiel Command.

B.2. We recommend that the Director, Defense Logistics Agency:

a. Cancel the 27 invalid contractor DoD activity address codes from the DoD activity address file.

b. Cancel the three bankrupt contractor DoD activity address codes from the DoD activity address file (Appendix D).

Management Comments. The Defense Logistics Agency concurred with the recommendations and has completed the corrective actions.

c. Update the status of inactive Defense Logistics Agency DoD activity address codes identified by the Defense Automatic Addressing System Center.

Management Comments. The Defense Logistics Agency partially concurred with the recommendation, stating that the Defense Logistics Agency can only update the status of inactive Defense Logistics Agency DoDAACs, not all DoDAACs.

Audit Response. We consider the comments responsive and revised the recommendation to clarify that our intention is for the Defense Logistics Agency to update the status of inactive Defense Logistics Agency DoDAACs. The Defense Logistics Agency has taken corrective action and no additional comments are required.

d. Direct the Commander, Defense Personnel Support Center, to comply with Defense Logistics Agency Regulation 4000.4, section VI, paragraph B.8., which requires that Defense Logistics Agency field activities submit Defense Logistics Agency commercial contractor changes or deletions of DoD activity address codes within 10 days after contract award or closure.

Management Comments. The Defense Logistics Agency concurred with the recommendation and has taken the recommended corrective action.

Finding B. Management of DoD Activity Address File Data

B.3. We recommend that the Director, Defense Automatic Addressing System Center:

- a. Identify inactive Air Force, Defense Logistics Agency, and Marine Corps contractor DoD activity address codes and request the corresponding service points to update the status of the DoD activity address codes.
- b. Identify inactive civil agency DoD activity address codes and request the Federal Supply Service, General Services Administration, to update the status of the DoD activity address codes by actually contacting the sponsoring activities. If the General Services Administration does not receive confirmation that the codes are valid, the DoD activity address codes should be canceled.

Management Comments. The Defense Logistics Agency partially concurred with the draft recommendations, stating that the Defense Logistics Agency has no authority to direct the Defense Automatic Addressing System Center to alter another agency file.

Audit Response. As a result of the Defense Logistics Agency comments, we redirected draft Recommendation B.2.c. (Recommendation B.3. in this report) to the Director, Defense Automatic Addressing System Center. We request the Director, Defense Automatic Addressing System Center, to provide comments on the final report.

B.4. We recommend that the Commandant, Marine Corps:

- a. Cancel the 27 invalid contractor DoD activity address codes from the DoD activity address file.
- b. Update the status of inactive DoD activity address codes identified by the Defense Automatic Addressing System Center.
- c. Issue policy requiring that Marine Corps field organizations submit Marine Corps contractor changes or deletions to service points within 10 days after contract award or closure.

Management Comments. The Marine Corps did not comment on a draft of this report. Therefore, we request that the Marine Corps provide comments to the final report.

B.5. We recommend that the Director, Defense Finance and Accounting Service Cleveland Center, establish DoD activity address code validation procedures so that verification letters are sent before the contract expiration date. If the service point does not receive confirmation that the DoD activity address codes are valid, the codes should be automatically canceled the same date that the contract expires.

Finding B. Management of DoD Activity Address File Data

Management Comments. The Director, Defense Finance and Accounting Service Cleveland Center, concurred in principle and stated that it had implemented the recommended procedure; however, it could not issue policy. The Defense Finance and Accounting Service Cleveland Center stated that any change to the DoD Financial Management Regulation (DoD 7000.14-R) would result in a single DoD standard procedure for the management and validation of all DoDAACs.

Audit Response. As a result of the Defense Finance and Accounting Service Cleveland Center comments, we revised the draft Recommendation to omit the terms "issue policy." The actions taken by the Defense Finance and Accounting Service Cleveland Center satisfy the intent of the recommendation. Additional comments are not required.

B.6. We recommend that the Assistant Secretary of the Navy (Research, Development, and Acquisition) issue policy requiring that Navy field activities submit Navy contractor DoD activity address code deletions to the Navy service point within 10 days of contract completion or termination.

B.7. We recommend that the Commander, Naval Air Systems Command:

- a. Remove the management control activity designations for the five technical representative detachments that have been abolished.
- b. Cancel the corresponding DoD activity address codes for the five technical representative detachments that have been abolished.
- c. Remove the management control activity designation for the Naval Air Warfare Center.
- d. Review all Naval Air Systems Command management control activity designations and remove designations for activities that are not performing a mission that requires a management control activity.

B.8. We recommend that the Commander, Naval Sea Systems Command:

- a. Remove the management control activity designations of the five organizations that we identified that were not performing a mission that requires a management control activity.
- b. Review the management control activity designations and remove designations for organizations that are not performing a mission that requires a management control activity.

B.9. We recommend that the Commander, Space and Naval Warfare Systems Command:

- a. Remove the management control activity designation for the Naval Electronic Systems Security Engineering Center.

Finding B. Management of DoD Activity Address File Data

- b. Review all Space and Naval Warfare Systems Command management control activity designations and remove designations for organizations that are not performing a mission that requires a management control activity.

Management Comments. The Navy did not comment on a draft of this report. Therefore, we request that the Navy provide comments to the final report.

Part III - Additional Information

Appendix A. Criteria to Control Access to DoD Materiel

DoD Materiel Management Regulation 4140.1-R - Attachment A, "Control of Access to DoD Materiel Required by Defense Contracts," June 14, 1993. The regulation replaced the prior regulation in DoD's efforts to streamline policies and procedures. The regulation requires DoD Components to establish one or more MCAs to maintain control over all contractor access to the DoD supply system. The MCA shall establish a system that:

- o validates and approves all contractor-initiated requisitions and DoD-initiated materiel requisitions that are coded for direct shipment to a contractor;
- o restricts contractor access to specific predetermined items and quantities of those items by ensuring requisition validity, adequate authority, and consistency with the terms of an existing contract;
- o rejects contractor and DoD-initiated materiel requisitions that do not comply with the requirements of an existing contract;
- o passes approved requisitions to the appropriate DoD source for supply action;
- o maintains a continuing record of the quantity of each item authorized as GFM provided to contractors by individual contracts and decrements the quantity authorized by the appropriate amount each time a requisition for the item is validated for issue; and
- o causes DoD supply sources to provide notification of shipment of GFM to the MCA that validated the requisition for comparison of GFM shipment notification with validation records to verify that no shipment has been made without a corresponding record of validation.

In addition, the MCAs were to establish a management reporting system that:

- o maintains a contract, requisition, and shipment status history file to serve as an auditable record of transactions involving GFM provided to contractors; and
- o provides DoD contract administration offices a quarterly status report showing all shipments of GFM to contractors and to DoD organizations for subsequent shipment to contractors as well as showing all GFM requisitions that were rejected.

Defense Logistics Agency Regulation 4000.4, "Activity Address Data in the DoD Activity Address Directory (DoDAAD) and the DoD Activity Address File (DoDAAF)," July 23, 1992. The regulation requires that Defense Logistics Agency field activities perform an annual review of their respective

Appendix A. Criteria to Control Access to DoD Materiel

DoDAACs to verify the continued need for the DoDAAC and to verify the accuracy of the address data. The validation, along with any changes resulting from the review, are to be submitted to the Defense Logistics Agency service point. The regulation also requires that Defense Logistics Agency field activities submit Defense Logistics Agency commercial contractor changes or deletions of DoDAACs within 10 days after contract award or closure.

Secretary of the Navy Instruction 4440.32A, "Control of Contractor Access to DoD Material Inventories and Determinations for the Supply of Government Furnished Material," September 27, 1991. The instruction directs the commanders of Naval systems commands to develop and implement proper controls for contractor access to GFM, including implementation of the MCA concept.

Appendix B. Statistical Sampling Plan and Results

Sampling Plan

The Inspector General identified 6,105 DoDAACs and 84,247 civil agency DoDAACs that had no requisitions processed through the Defense Automatic Addressing System Center from August 1, 1992, through June 30, 1993 (11 months). We have classified these DoDAACs as "inactive." All of these inactive DoDAACs were valid within the DoD activity address file. To assess the validity of these codes, our Quantitative Methods Division, Audit Planning and Technical Support Directorate, developed a two-stage stratified random sample design. Using stratified random sampling, two separate samples were taken, one of 290 inactive DoD contractor DoDAACs and one of 100 inactive civil agency DoDAACs. Based on our audit results, statistical projections were made for DoD contractor DoDAACs to the DoD activity address file.

No statistical projections were made for the civil agency DoDAACs. We did not make statistical projections because we questioned the validity of the response received from the Federal Supply Service, General Services Administration.

Sampling Results

The results from the inactive DoD contractor DoDAAC sample is as follows:

Projections for Inactive DoD Contractor DoDAACs in the DoD Activity Address File						
	DoDAACs	DoDAACs Reviewed	DoDAACs That Should be Deleted			Margin of Error
			Actual	Projected	Percent	
Air Force	1,341	60	34	760	57	6%
Defense Logistics Agency	745	50	27	402	54	6%
Marine Corps	291	40	27	196	68	6%
Navy	1,293	60	2	43	3	2%
Army	2,435	80	0	0	0	0%
Total	<u>6,105</u>	<u>290</u>	<u>90</u>	<u>1,401</u>	23	3%

Confidence Level: Overall = 95 percent; DoD Components = 90 percent.

Estimate* 1,401

Lower Bound 1,197 Upper Bound 1,606

* Estimate = The estimated number of inactive DoD contractor DoDAACs that should be deleted from the DoD activity address file.

Appendix B. Statistical Sampling Plan and Results

We are 95 percent confident that between 1,197 and 1,606 DoDAACs are invalid, for the period sampled. The single most likely quantity is 1,401 out of the 6,105.

There is one peculiarity in the data. All 27 Defense Logistics Agency contractor DoDAACs that were identified as DoDAACs that should have been deleted were sponsored by the Defense Personnel Support Center. None of the other Defense Logistics Agency activities had any contractor DoDAACs that were identified as invalid. The resulting value is statistically representative of the 745 Defense Logistics Agency DoDAACs.

The margin of error column for DoD Components represents the percent (above and below) the estimate percent for the confidence interval. For example, the Air Force confidence interval would be about 51 percent to 63 percent. We calculated these figures using a 90 percent confidence level. The sample was designed to have a higher confidence level for the overall estimates (95 percent) but also to obtain enough data at the Component level to attain an estimate at the 90 percent confidence level. The Navy margin or error rate (2 percent) is exceptionally low, so its margin of error (3 percent +/- 2 percent) is proportionally high. However, for all others collectively, we do obtain a reasonably tight precision for the 95 percent confidence level.

Appendix C. Summary of Prior Audits and Other Reviews

General Accounting Office

Report No. NSIAD-88-99 (OSD Case No. 7458), "Air Force Can Improve Controls Over Contractor Access to DoD Supply System," March 18, 1988, states that the Air Force had not implemented MCA controls as required. The General Accounting Office report concludes that the Air Force could not assure that contractors received only the GFM required to perform their contracts and that the Air Force accounting system did not assure adequate controls over GFM furnished to contractors. In addition, property administrators were not using the quarterly GFM status reports to monitor GFM at contractor facilities. The Air Force concurred with the General Accounting Office recommendations to validate all wholesale-level contractor requisitions before they are sent to the source of supply to be filled, and to improve the materiel requirements list.

Inspector General, DoD

Report No. 94-119, "Accounts Receivable for DoD Materiel," June 3, 1994, was the first of two reports from the audit of DoDAACs. The report states that four contractors were 10 months to 7 years overdue in paying for materiel obtained from the DoD supply system. The Defense Finance and Accounting Service did not advise authorizing contracting officers or administrative contracting officers of delinquent contractor accounts. Consequently, the Defense Finance and Accounting Service expended extra effort to collect payment on or otherwise reconcile the outstanding accounts receivable, yet did not collect or resolve at least \$4.6 million of delinquent accounts receivable. The report recommended collection or resolution of \$4.6 million of delinquent accounts receivable and the establishment of a preference for the issuance of GFM for contractors that need materiel from the DoD supply system. Management concurred with the recommendations, and the monies identified by the audit have been collected or adjusted in the accounting records.

Report No. 93-037, "Government Property in the Possession of Contractors," December 17, 1992, reported on the DoD implementation of the Under Secretary of Defense for Acquisition policy memorandum "Government Property in the Possession of Defense Contractors," November 1986. The memorandum established 30 property initiatives. The initiatives for controls over Government materiel were partially implemented. The Military Departments and the Defense Logistics Agency established MCAs to control contractor access to GFM, but significant problems exist that have prevented

Appendix C. Summary of Prior Audits and Other Reviews

full operation of the activities. The Army was not fully monitoring contractor requisitions and documents to determine whether the items were authorized. Also, the Navy was experiencing automated data processing problems in controlling contractor requisitions. Further, the Air Force had problems monitoring contractor requisitioning practices.

The financial accounting systems initiative was not complete. DoD has been trying to develop a financial accounting system for Government property in the possession of contractors for more than 10 years. The efforts of this initiative continue under the Corporate Information Management initiative.

The Military Departments and the Defense Logistics Agency achieved implementation of the property reporting initiative by improved reporting. Although Government property in the possession of contractors increased by \$27 billion from 1986 to 1990, the majority of the increase was attributed to better and more complete reporting. The report made no recommendations.

Army Audit Agency

Report CR 94-203, "Controlling Contractors' Access to the DoD Supply System," January 25, 1994, states that Army controls over GFM were not fully effective in controlling contractors' access to the supply system. MCAs did not adequately validate requisitions for GFM to assure that contractors only received the types and quantities of material authorized in contracts. Full validation was impossible because listings of the types and quantities of materiel needed to support a contract were incomplete or inaccurate, and the system was not designed to validate all requisitions. In addition, MCAs did not adequately control the use of DoDAACs that authorized contractors to requisition and receive materiel from the supply system. The MCAs issued GFM to contractors who, contrary to Army guidance, had DoDAACs that were not assigned to a specific contract. As a result, contractors obtained \$1.1 million of materiel that was not authorized in the contracts. In addition, internal controls were circumvented and accountability was lost.

The report recommended that the Army place new emphasis on the importance of complete and accurate data bases in the MCA system by establishing database management groups, manually validating GFM requisitions that cannot be validated by the automated system, validating requisitions for materiel owned by project offices and furnished to contractors, and purging all DoDAACs that were assigned to contractors rather than specific contracts. The Army concurred with all recommendations and agreed to implement them within 12 months.

Report CR 94-202, "Government-Furnished Property, U.S. Army Aviation and Troop Command, St. Louis, Missouri," January 11, 1994, states that the MCA established by the Aviation and Troop Command was not effective in controlling quantities of GFM issued to contractors. About 40 percent of the quantities authorized in the MCA's records differed from the quantities

Appendix C. Summary of Prior Audits and Other Reviews

authorized in the contracts. The report concluded that contractors received millions of dollars of aviation material without the MCA effectively validating the requests. The report recommended actions to improve the controls over the use of the MCA. The Army concurred with the recommendations.

Report CR 94-201, "Government-Furnished Property, U.S. Army Missile Command, Redstone Arsenal, Alabama," November 12, 1993, states that the MCA established by the U.S. Army Missile Command did not effectively control the use of DoDAACs. The MCA routinely extended DoDAACs beyond contract completion dates, thus enabling contractors to continue receiving items from the DoD supply system. Also, the MCA approved requisitions for \$8.4 million of materiel against DoDAACs that were not valid. The report recommended reviewing all DoDAACs and purging codes that did not identify a specific contract and to discontinue extending DoDAACs beyond the expiration date of the contract. The Army concurred with the recommendations.

Report NR 93-2, "Materiel in the Custody of Contractors, U.S. Army Tank-Automotive Command," January 15, 1993, states that the Army Tank-Automotive Command did not adequately account for about \$210 million of GFM in the custody of contractors, did not centrally manage the use of GFM, did not effectively control contractor access to the DoD supply system, or did not furnish support for financial records. As a result, the command's financial records showed about \$161 million less GFM than contractors reported to the Defense Logistics Agency. The report recommended that the Army control access to the supply system by establishing procedures to ensure that the automated system has data required for proper validation. The Army nonconcurred with the audit conclusions, stating that contractors cannot obtain unauthorized materiel because of requisitioning edits and procedures already in place to control contractor requisitioning. The Army subsequently agreed that it would not change the current system and that personnel would update the files manually until the new DoD system "Commercial Asset Visibility" was implemented.

Air Force Audit Agency

Report No. 94068025, "Air Force Depot Maintenance Service, Fiscal Year 1993 Materiel In-Transit Balances," April 1, 1994, states that the Air Force depot maintenance service consolidated trial balance account 14220, materiel in-transit-GFM to contractors, had a negative balance of \$87.3 million as of September 30, 1993. The Air Force Materiel Command did not have sufficient detailed information to summarize and reconcile the account, and the accurate preparation of financial statements was not possible. The report recommended computer matching of Government shipments with contractor receipt records. Air Force management concurred, stating that a computer program would be written and should be implemented by April 1994. The Defense Finance and Accounting Service also concurred, stating that it will work with the Air Force to implement a matching system by

Appendix C. Summary of Prior Audits and Other Reviews

September 30, 1994. The report also states that the identified weaknesses were material and should be reported in the Air Force Materiel Command's Annual Federal Managers' Financial Integrity Act Statement of Assurance.

Report No. 92066010, "Review of General and Application Controls Within the Contract Depot Maintenance Production and Cost System," April 1, 1993, states that the Contract Depot Maintenance Production and Cost System (G072D) did not conform to Comptroller General accounting standards or provide users reliable or timely contract depot maintenance financial data. One of the primary purposes of the G072D is to report GFM transferred to contractors from the Depot Maintenance Business Area; however, the G072D was not a transaction-based, double-entry accounting system. (Transaction-based means that accounting entries are linked to audit trails. A fundamental concept of accounting is that accounting records be double-entry [debits equal credits]). The report concludes that G072D system application controls were not adequate to prevent waste, inefficiency, and losses or to assure the integrity of financial data. The report recommended that the Air Force conduct the required internal control and accounting systems reviews. Air Force management concurred, stating that the G072D was documented as having a material accounting system deficiency under the Federal Managers' Financial Integrity Act.

Appendix D. DoD Activity Address Codes for Bankrupt Contractors

The following contractors had valid DoDAACs in the DoD activity address file as of May 2, 1994. However, officials at the respective Defense contract management area operations offices have confirmed that these contractors should not have access to the DoD supply system.

Airspace Technology Corporation, Woods Cross, Utah
Dynamic Flight Structures, Incorporated, Ada, Oklahoma
Gulf Apparel Corporation, Selma, Alabama
Happy Penguin, Incorporated, Clinton, North Carolina
Sew-Rite, Incorporated, Chicago, Illinois
Short Electronics, Incorporated, Sacramento, California

Appendix E. Navy Organizations That Should Not Be Designated Management Control Activities

Naval Technical Representative Detachments That No Longer Exist. The following detachments no longer exist and, therefore, should be deleted from the DoD Activity Address File.

- o Lockheed California, Burbank, California;
- o McDonnell Douglas, St. Louis, Missouri;
- o United Technologies Corporation, Sikorsky Aircraft Division, Stratford, Connecticut;
- o General Electric, Lynn, Massachusetts; and
- o Bell Helicopter Textron, Fort Worth, Texas.

Organizations With an Invalid MCA Designation. The following organizations do not have an MCA mission and, therefore, MCA designations should be removed.

- o Naval Air Development Center, Warminster, Pennsylvania;
- o Supervisor of Shipbuilding, Newport News, Virginia;
- o Supervisor of Shipbuilding, Portsmouth, Virginia;
- o Naval Weapons Station, Yorktown, Virginia;
- o Naval Sea Logistics Center, Mechanicsburg, Pennsylvania;
- o Norfolk Naval Shipyard, Portsmouth, Virginia; and
- o Naval Electronic Systems Security Engineering Center, Washington, DC.

Appendix F. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
A.1.a.	Internal Controls. Establishes criteria that allow validation for GFM to the NSN level.	Undeterminable. ¹
A.1.b.	Internal Controls. Establishes policy that requires written justification for access by FSC.	Undeterminable. ¹
A.1.c.	Internal Controls. Improves the accuracy of parts lists so that contractors have access to only the parts needed to perform their contracts.	Undeterminable. ¹
A.1.d.	Internal Controls. Requires the GFM status report to be sent to contract administration offices to facilitate the accountability of GFM at contractor facilities.	Undeterminable. Status reports will minimize the potential for misappropriation of GFM.
A.1.e.	Internal Controls. Develops management reports that identify differences between Air Force and contractor GFM records to facilitate the reconciliation of the differences.	Undeterminable. ²
A.2.a. and A.2.b.	Compliance With Regulations or Laws. Requires compliance with contracting policy to maintain accurate and current contract terms.	Undeterminable. ²
A.2.c.	Economy and Efficiency. Resolves differences between Air Force and contractor records.	Undeterminable. ²

See footnotes at end of appendix.

Appendix F. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
B.1.a., B.1.b., B.2.a., B.2.b., B.4.a., and B.7.b.	Economy and Efficiency. Reduces the potential for fraud, waste, and abuse by eliminating invalid DoDAACs from the DoD activity address file.	Undeterminable. ³
B.1.c., B.2.c., B.3., and B.4.b.	Economy and Efficiency. Identifies entities that no longer need DoDAACs.	Undeterminable. ³
B.1.d., B.4.c., B.5., and B.6.	Economy and Efficiency. Improves service point procedures in maintaining accurate and timely DoDAAC information.	Undeterminable. ³
B.1.e.	Economy and Efficiency. Reduces the risk of a supply shortage for items under contract with bankrupt contractors.	Nonmonetary.
B.2.d.	Compliance With Regulations or Laws. Requires the Defense Personnel Support Center to comply with policy and submit commercial contractor DoDAAC changes or deletions within 10 days after contract award or closure.	Undeterminable. ³
B.7.a., B.7.c., B.7.d., B.8., and B.9.	Economy and Efficiency. Reduces the risk of unnecessary access to the DoD supply system by eliminating unnecessary MCA designations.	Undeterminable. ³

¹Limiting contractor access to only GFM required to perform the contract will reduce the amount of materiel the Government has to buy and stock.

²Reconciling differences between Air Force and contractor records will enhance accountability for GFM.

³Prevention of fraud, waste, and abuse will have continual future monetary benefits.

Appendix G. Organizations Visited or Contacted

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology, Washington, DC
Under Secretary of Defense (Comptroller), Washington, DC
Director, Defense Procurement, Washington, DC

Department of the Army

Assistant Secretary of the Army (Research, Development, and Acquisition),
Washington, DC
Office of the Deputy Chief of Staff for Logistics, Washington, DC
Army Materiel Command, Alexandria, VA
 Army Tank-Automotive Command, Warren, MI
Army Audit Agency, Alexandria, VA
 Army Audit Agency, Central Region, Huntsville Field Office, Huntsville, AL
 Army Audit Agency, Northeastern Region, Detroit Field Office, Warren, MI

Department of the Navy

Office of the Comptroller, Washington, DC
Naval Air Systems Command, Washington, DC
 Naval Air Warfare Center, Warminster, PA
Naval Sea Systems Command, Washington, DC
 Naval Sea Logistics Center, Mechanicsburg, PA
 Naval Weapons Station, Yorktown, VA
 Norfolk Naval Shipyard, Portsmouth, VA
Supervisor of Shipbuilding, Conversion and Repair, Newport News, VA
Supervisor of Shipbuilding, Conversion and Repair, Portsmouth, VA
Naval Supply Systems Command, Arlington, VA
 Naval Aviation Supply Office, Philadelphia, PA
 Navy Ships Parts Control Center, Mechanicsburg, PA
Space and Naval Warfare Systems Command, Washington, DC
 Naval Electronic Systems Security Engineering Center, Washington, DC
Headquarters, U.S. Marine Corps, Washington, DC
Marine Corps Logistics Base, Albany, GA

Department of the Air Force

Office of the Deputy Assistant Secretary of the Air Force (Contracting),
Washington, DC
Air Force Materiel Command, Wright-Patterson Air Force Base, OH
 Ogden Air Logistics Center, Hill Air Force Base, UT
 Oklahoma City Air Logistics Center, Tinker Air Force Base, OK

Department of the Air Force (cont'd)

Warner Robins Air Logistics Center, Robins Air Force Base, GA
Sacramento Air Logistics Center, McClellan Air Force Base, CA
Office of Special Investigations, Tinker Air Force Base, OK
Air Force Audit Agency, Wright-Patterson Air Force Base, OH
Air Force Audit Agency, Tinker Air Force Base, OK

Defense Organizations

Defense Logistics Agency, Alexandria, VA
Defense Automatic Addressing System Center, Dayton, OH
Defense Contract Management Command, Alexandria, VA
Defense Contract Management District Mid Atlantic, Philadelphia, PA
Defense Contract Management Area Operations
 Cleveland, OH
 Dayton, OH
 Detroit, MI
 Philadelphia, PA
 Reading, PA
 Springfield, NJ
Defense Plant Representative Office
 Allied Signal, Teterboro, NJ
 GEC/Kearfott, Wayne, NJ
 GE Aircraft Engines, Cincinnati, OH
 ITT Corporation, Nutley, NJ
 Martin Marietta, Camden, NJ
 Westinghouse Electric, Baltimore, MD
Defense Contract Management District Northeast, Boston, MA
Defense Contract Management Area Operations
 Boston, MA
 Garden City, NY
 Hartford, CT
 New York, NY
 Syracuse, NY
Defense Plant Representative Office
 Grumman Aerospace, Bethpage, NY
 Hamilton Standard, Windsor Locks, CT
 IBM Federal Systems, Owego, NY
 Martin Marietta Defense Systems, Pittsfield, MA
 Paramax Systems Corporation, Great Neck, NY
 Raytheon Spencer Laboratory, Burlington, MA
 Sikorsky Aircraft, Stratford, CT

Appendix G. Organizations Visited or Contacted

Defense Organizations (cont'd)

Defense Contract Management District South, Marietta, GA

Defense Contract Management Area Operations

Atlanta, GA

Birmingham, AL

Clearwater, FL

Dallas, TX

Orlando, FL

Defense Plant Representative Office

E-Systems, Greenville, TX

Lockheed Aeronautical Systems Company, Marietta, GA

Loral/Vought Aircraft Company, Grand Prairie, TX

Martin Marietta, Orlando, FL

Pemco Aeroplex, Birmingham, AL

Pratt & Whitney, West Palm Beach, FL

Rockwell International, Richardson, TX

Texas Instruments, Dallas, TX

Defense Contract Management District West, El Segundo, CA

Defense Contract Management Area Operations

Cedar Rapids, IA

Chicago, IL

Denver, CO

El Segundo, CA

Indianapolis, IN

Milwaukee, WI

Phoenix, AZ

Sacramento, CA

Salt Lake City, UT

Santa Ana, CA

San Diego, CA

San Francisco, CA

Seattle, WA

Twin Cities, MN

Van Nuys, CA

Defense Plant Representative Office

Boeing, Witchita, NE

Douglas Aircraft Company, Long Beach, CA

Hercules, Magna, UT

Hughes Aircraft, Los Angeles, CA

Hughes Ground Systems, Fullerton, CA

Lockheed, Sunnyvale, CA

Martin Marietta, Denver, CO

McDonnell Douglas, St. Louis, MO

Northrup, Pico Rivera, CA

Rockwell International, Anaheim, CA

Rockwell International, Canoga Park, CA

Appendix G. Organizations Visited or Contacted

Defense Organizations (cont'd)

Defense Electronics Supply Center, Dayton, OH
Defense Fuel Supply Center, Alexandria, VA
Defense General Supply Center, Richmond, PA
Defense Industrial Supply Center, Philadelphia, PA
Defense Logistics Management Standards Office, Alexandria, VA
Defense Personnel Support Center, Philadelphia, PA
Defense Finance and Accounting Service, Arlington, VA
Cleveland Center, Cleveland, OH
Defense Accounting Office, Tinker Air Force Base, OK
Defense Accounting Office, Wright-Patterson Air Force Base, OH

Non-Defense Organizations

General Accounting Office, Washington, DC
General Services Administration
Federal Supply Service, Arlington, VA
Office of the Inspector General, Washington, DC

Appendix H. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology
Under Secretary of Defense (Comptroller)
Deputy Under Secretary of Defense (Acquisition Reform)
Deputy Under Secretary of Defense (Comptroller/Management)
Deputy Under Secretary of Defense (Comptroller/Program/Budget)
Director, Defense Procurement
Assistant to the Secretary of Defense (Public Affairs)

Department of the Army

Secretary of the Army
Auditor General, Department of the Army
Commander, Army Tank-Automotive Command

Department of the Navy

Secretary of the Navy
Assistant Secretary of the Navy (Financial Management)
Assistant Secretary of the Navy (Research, Development, and Acquisition)
Comptroller of the Navy
Commandant, Marine Corps
Commander, Naval Air Systems Command
Commander, Naval Sea Systems Command
Commander, Space and Naval Warfare Systems Command
Auditor General, Department of the Navy

Department of the Air Force

Secretary of the Air Force
Assistant Secretary of the Air Force (Financial Management and Comptroller)
Commander, Air Force Materiel Command
 Commander, Oklahoma City Air Logistics Center
Auditor General, Department of the Air Force

Defense Organizations

Director, Defense Finance and Accounting Service
 Director, Defense Finance and Accounting Service, Cleveland Center
 Director, Defense Accounting Office, Wright-Patterson Air Force Base

Defense Organizations (cont'd)

Director, Defense Contract Audit Agency
Director, Defense Logistics Agency
Commander, Defense Contract Management Command
Director, Defense Automatic Addressing System Center
Director, Defense Logistics Management Standards Office
Director, National Security Agency
Inspector General, Central Imagery Office
Inspector General, National Security Agency
Director, Defense Logistics Studies Information Exchange

Non-Defense Federal Organizations

Office of Management and Budget
Assistant Inspector General for Auditing, Office of the Inspector General, General Services Administration
Technical Information Center, National Security and International Affairs Division, General Accounting Office

Chairman and Ranking Minority Member of Each of the Following Congressional Committees and Subcommittees:

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on National Security, Committee on Appropriations
House Committee on Government Reform and Oversight
House Subcommittee on National Security, International Affairs, and Criminal Justice, Committee on Government Reform and Oversight
House Committee on National Security

This page was left out of original document

Part IV - Management Comments

Air Force Materiel Command Comments



DEPARTMENT OF THE AIR FORCE
HEADQUARTERS AIR FORCE MATERIEL COMMAND
WRIGHT-PATTERSON AIR FORCE BASE OHIO

MEMORANDUM FOR HQ AFMC/IGO

24 JAN 1995

FROM: HQ AFMC/LGT

SUBJECT: DoD(IG) Draft Report, Management of Access to the
DoD Supply System (Project No 3CK-0031.01)

1. Comments to Finding A, Recommendation 1 (a-e) and Finding B, Recommendation 1 (a-d) on subject audit are attached.
2. Point of contact is Mary E. Johnson or Sara Black,
HQ AFMC/LGIC-4, 77230.

A handwritten signature in black ink, appearing to read "Lowell W. Fincher".

LOWELL W. FINCHER
Deputy Chief, Item Management Division
Directorate of Logistics

Attachment:
Comments

Air Force Materiel Command Comments

DOD IG Draft Report Entitled, "Management of Access to the DOD Supply System," November 10, 1994 (Project No 3CK-0031.01)

Finding A
Recommendation 1a

HQ AFMC STAFF EVALUATION/ACTION
Concur with the finding and recommendation. The criteria for validating maintenance contractor requisitions at the national stock number level (NSN) was established in the Special Support Stock Control and Distribution System (SS SC&D) D034A, which implemented direction in DODI 4140.48, 6 Mar 86. While there are limitations within the D034A system to maintain a file record for all NSNs on every maintenance contract requiring GFM, efforts are underway to correct this deficiency. The MCA processing logic of D034A has been identified and scheduled for inclusion in the Asset Management of the Stock Control System (SCS) segment of the Joint Logistic System Center (JLSC) tasking. Upon implementation of SCS, the file maintenance capability for all NSNs on every maintenance GFM contract will be satisfied. Since the implementation of the SCS is outside the control of AFMC, recommend this portion of the recommendation be transferred to the JLSC.

We concur with your recommendation to establish criteria to insure validation of GFM to the NSN level. We need to rework this issue because based on conversations with our MCA (D034A) system Programmer at OO-ALC there is no restriction on the number of NSNs that can be accepted in the system. There are indications that it is a system interface problem. We will investigate and work with the ALCs to develop realistic procedures for manual input of the NSNs until we automate the file maintenance capability. The estimated completion date for research is 2 May 95.

Finding A
Recommendation 1b

HQ AFMC STAFF EVALUATION/ACTION
Concur with finding and recommendation. HQ AFMC/LGIC will update GFM policy to require written justification for all DOD contractor access to GFM by FSC.

Air Force Materiel Command Comments

DOD IG Draft Report Entitled, "Management of Access to the DOD Supply System," November 10, 1994 (Project No 3CK-0031.01)

Finding A
Recommendation 1c

HQ AFMC STAFF EVALUATION/ACTION
Concur with the intent of your findings. The Material Requirements List (MRL) and the Purchase Request Support List (PRSL) are both working as designed. No deficiencies have been documented by the users. HQ AFMC/LGII, MRL and PRSL system office of primary responsibility (OPR), has no plans to change the MRL and PRSL processes. Any inaccuracy/incompleteness of these products is caused by inaccurate/incomplete data receive/not received in the Applications Programs and Indenture (API) system through system interfaces (G005 and G009 systems). The MRL and PRSL will only reflect that an item is required when usage has been received for that item. There have been meetings between API, G005 and G009 OPRs to resolve interface problems. Further research is needed to determine the extent of this problem. The estimated completion date for the research is Apr 95.

Finding A
Recommendation 1d

HQ AFMC STAFF EVALUATION/ACTION
Concur with the findings and recommendation. Policy on the distribution of the D034A GFM Status Report for Commercially Performed Maintenance Contract was an issue of discussion at the D034A Business Process Model meeting Nov 94. HQ AFMC/LGIC will work with the ALCs to identify an OPR to oversee GFM status product distribution to property administrators. D034A contains a Stock Record Account Number (SRAN) Table which must be updated periodically to insure proper distribution. We will use the DLAH 4105.4 as our source to update the D034A SRAN table. An Interim Message Change to AFM 67-1 will be used to provide procedures to the ALCs. The estimated date of the IMC is 1 Mar 95.

Finding A
Recommendation 1e

HQ AFMC STAFF EVALUATION/ACTION
Concur with findings and recommendation. As of Nov 94, we corrected this finding. The ALC are receiving management reports that identify differences between Air Force shipping records and contractor receiving records. Recommend closure of this action item.

Air Force Materiel Command Comments

DOD IG Draft Report Entitled, "Management of Access to the DOD Supply System," November 10, 1994 (Project No 3CK-0031.01)

Finding B

Recommendation 1a

Concur with finding and recommendation. Contractor DODAAC - 34 accounts were deleted, six of those deleted were re-instated.

Finding B

Recommendation 1b

Concur with finding and recommendation. Research of the deleted DODAAC file found Airspace Technology Corporation, Woods Cross, UT. This company had DODAAC EY1498, which was deleted due to scheduled completion of the contract. There is no information in the file that this company filed bankruptcy. The DODAAC Alpha file revealed EY1089 still existed for Dynamic Flight Structures of Ada OK, with contract completion date of Sep 95. Again, no information is on file to indicate bankruptcy; however, due to the IG findings on this contractor the DODAAC has been deleted effective 20 Dec 94.

Finding B

Recommendation 1c

Concur with intent of the finding and recommendation. LSO/LGTT will contact DAASC to determine if a report can be developed to send to the Service Point quarterly or annually. This report will be used to follow-up on inactive accounts. The estimated completion date is 28 Feb 95.

Finding B

Recommendation 1d

Concur with finding and recommendation. Incorporation of the CAO report procedures in the regulation has been discussed. AFR 400-11, will be replaced by AFI 24-230, "Maintaining AF DOD Activity Address Directory," which is in the process of being written. The estimated completion date for updating the regulations is 31 Mar 95.

Defense Logistics Agency Comments



DEFENSE LOGISTICS AGENCY
HEADQUARTERS
CAMERON STATION
ALEXANDRIA, VIRGINIA 22304-6100



IN REPLY
REFER TO DDAI

18 JAN 1995

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING,
DEPARTMENT OF DEFENSE

SUBJECT: OIG Audit Report on "*Management of Access to the DoD Supply System*"
(Project No. 3CK-0031.01)

This is in response to your 10 November 1994 request.

1 Encl

A handwritten signature in black ink, appearing to read "Jacqueline G. Bryant".

JACQUELINE G. BRYANT
✓ Chief, Internal Review Office

cc:
MM

Defense Logistics Agency Comments

TYPE OF REPORT: AUDIT

DATE OF POSITION: 16 JAN 1995

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO: Draft Report Management of Access to the
DoD Supply System (Project No. 3CK-0031.01)

FINDING B: Management of DoD Activity Address File Data. The DoD activity address file contained invalid DoD contractor DoDAACs and Navy-designated MCAs. We estimate that approximately 23 percent of the inactive DoD contractor DoDAACs in the DoD activity address file were invalid. Invalid DoD contractor DoDAACs remained in the file because sponsoring activities did not promptly notify the service points that the DoDAACs should be deleted. Also, invalid Navy-designated MCAs existed because the Navy assigned MCA designations to organizations that did not have a requirement to validate contractor requisitions for GFM and did not update the MCA designations as organizations changed. Invalid DoDAACs and MCA designations in the DoD activity address file increase the risk of abuse of the DoD supply system and weaken internal controls over DoD materiel resources.

DLA COMMENTS: Concur. The Defense Logistics Agency (DLA) recognizes the importance of the duties performed by our DLA Service Point (SP) and their oversight mission of the Department of Defense Activity Address Codes (DoDAACs) file. We have continuously monitored the performance capability of our DoDAAC file in order to effectively meet our customer requirements, and at the same time, decrease the risk of abuse to the Department of Defense (DoD) supply system. DLA DoDAAC policy (Defense Logistics Agency Regulation number 4000.4 (DLAR 4000.4) dated 23 Jul 92) is reviewed and revised on an ongoing basis as issues are identified; even now we are staffing updates to the DLAR 4000.4 for improved Service Point (SP) guidance.

Additionally, the DLA SP maintains a DBASE III, automated DoDAAC system, which in accordance with the DLAR 4000.4, contains stringent edits on user requirements and a Standard Query Language (SQL) capability. This year we have updated our automated edits to mandate a Contract number, Memorandum of Understanding (MOU) number, Memorandum of Agreement number (MOA), Pipeline/Tariffs numbers. Another edit is Expiration Date; no DoDACC will be issued without an expiration date. If a contract expiration date cannot be provided because the contract is ongoing, or for whatever reason, the SP will assign a one year expiration date. The contract will automatically be reviewed yearly as a part of the annual validation.

Defense Logistics Agency Comments

In an effort to enhance the oversight and monitoring role of the DLA SP, we are now using SQL capabilities for file maintenance as well as program enhancements. As a part of the file maintenance effort, all Contractor DoDAACs (UY series), lacing a contractor number, MOU number, MOA number, or expiration date, have been sorted and listed by DLA Activity. A letter has been sent to each activity advising them of a thirty (30) day DoDAAC deletion date unless corrective action is taken immediately. In terms of our SP program enhancements, we will now, through the use of SQL programming, automatically produce a list of "UY" series DoDAACs thirty days PRIOR to their expiration dates and notify accordingly. If for whatever reason, the requirement for a DoDAAC is not updated within the required thirty (30) days, the DoDAAC will automatically be deleted.

DLA recognizes the potential for abuse to the DoD supply system, and have made the DLA DoDAAC file a daily focus of our business processes. We believe that with this ongoing effort, and the changes we have already instituted, both in our policy and automated system, we will encounter no future problems with invalid Contractor DoDAACs.

INTERNAL MANAGEMENT CONTROL WEAKNESSES:

- Nonconcur.
- Concur; however, weakness is not considered material.
- Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

MONETARY BENEFITS:N/A

DLA COMMENTS:

ESTIMATED REALIZATION DATE:

AMOUNT REALIZED:

DATE BENEFITS REALIZED:

ACTION OFFICER: Darlene DeAngelo, MMSLR, X44012, 6 Jan 95

REVIEW/APPROVAL: Charles W. Masters, Col, USAF, Act MMSD, 9 Jan 95

COORDINATION: L. Coulter, DDAI, X49605, 10 Jan 95

Darlene DeAngelo, MMSLR, 6 Jan 95

DLA APPROVAL:

18 JAN 1995



LAWRENCE F. FARRELL, JR.
Major General, USAF
Principal Deputy Director

Defense Logistics Agency Comments

TYPE OF REPORT: AUDIT

DATE OF POSITION: 15 JAN 1995

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO: Draft Report Management of Access to the
DoD Supply System (Project No. 3CK-0031.01)

RECOMMENDATION B.2.a.: We recommend that the Director, Defense
Logistics Agency, cancel the 27 invalid contractor DoD activity
address codes from the DoD activity address file.

DLA COMMENTS: Concur. These DoDAACs had been issued to the
Defense Personnel Support Center (DPSC) and were canceled and
removed from the DoD active file immediately upon notification of
their existence. As a permanent solution, the DLA SP, through
the use of their automated system, has since reviewed every DPSC
Contractor DoDAAC by both expiration date and contract number.
DPSC was then given thirty days to review the list and cancel or
update their DoDAAC requirements. Additionally, as per B, above,
an automated program has been instituted to produce a list of all
contractor (UY series) DoDAACs, thirty (30) days prior to
expiration. If for any reason the DoDAAC requirement is not
updated, within the thirty (30) days, it will be deleted.

DISPOSITION:

- () Action is ongoing. Estimated Completion Date:
(X) Action is considered complete.

INTERNAL MANAGEMENT CONTROL WEAKNESSES:

- () Nonconcur.
(X) Concur; however, weakness is not considered material.
() Concur; weakness is material and will be reported in the DLA
Annual Statement of Assurance.

MONETARY BENEFITS: None.

DLA COMMENTS:

ESTIMATED REALIZATION DATE:

AMOUNT REALIZED:

DATE BENEFITS REALIZED:

ACTION OFFICER: Darlene DeAngelo, MMSLR, X44012, 6 Jan 95

REVIEW/APPROVAL: Charles W. Masters, Col, USAF, Act MMSD, 9 Jan 95

COORDINATION: L Coulter, DDAI, X49605, 10 Jan 95

DLA APPROVAL:

Jacqueline H. Coulter, DDAI, 10 Jan 95
D. J. Farrelly
J. JEFFREY P. FARRELLY, SP
Supply Control, DLA
Manager, Supply Director

10 JAN 1995

Defense Logistics Agency Comments

TYPE OF REPORT: AUDIT

DATE OF POSITION: 10 Jan 95

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO: Draft Report Management of Access to the
DoD Supply System (Project No. 3CK-0031.01)

RECOMMENDATION B.2.b.: We recommend that the Director, Defense
Logistics Agency, cancel the three bankrupt contractor DoD
activity address codes from the DoD activity address file
(Appendix D).

DLA COMMENTS: Concur. Per B.2.a. above, these DoDAACs were
issued to the Defense Personnel Support Center (DPSC) and were
cancelled and removed from the DoD active file immediately upon
notification of their existence. Again as above, every DPSC
Contractor DoDAAC was listed and sent to DPSC for review. Any
DPSC contractor DoDAAC for which the requirement has not been
updated, will be deleted.

DISPOSITION:

- () Action is ongoing. Estimated Completion Date:
(X) Action is considered complete.

INTERNAL MANAGEMENT CONTROL WEAKNESSES:

- () Nonconcur.
(X) Concur; however, weakness is not considered material.
() Concur; weakness is material and will be reported in the DLA
Annual Statement of Assurance.

MONETARY BENEFITS: None.

DLA COMMENTS:

ESTIMATED REALIZATION DATE:

AMOUNT REALIZED:

DATE BENEFITS REALIZED:

ACTION OFFICER: Darlene DeAngelo, MMSLR, x44012, 6 Jan 94

REVIEW/APPROVAL: Charles W. Masters, Col, USAF, Act MMSD, 9 Jan 95

COORDINATION: L. Coulter, DDAI, X49605, 10 Jan 95

Byrd DDAI, 10 Jan 95

DLA APPROVAL:

Bar P. Farrel

Defense Logistics Agency Comments

Final Report
Reference

TYPE OF REPORT: AUDIT

DATE OF POSITION:

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO: Draft Report Management of Access to the
DoD Supply System (Project No. 3CK-0031.01)

RECOMMENDATION B.2.c.(1): We recommend that the Director, Defense Logistics Agency, establish procedures for the Director, Defense Automatic Addressing System Center, to identify inactive Air Force, Defense Logistics Agency, and Marine Corps contractor DoD activity address codes and request the corresponding service points to update the status of the DoD activity address codes.

DLA COMMENTS: Partially concur. Although the DAASC is an activity subordinate to DLA, their role as the DoD DoDAAD Central Control Point is under DoD direction/control. In this regard the Department of Defense (DoD) Activity Address Directory (DoDAAD) number 4000.25-6-M (DoD 4000.25-6-M) prescribes DoDAAC policy for all Offices of the Secretary of Defense, Unified and Specified Commands, Coast Guard, Defense Nuclear Agency (DNA), Defense Logistics Agency (DLA), General Supply Agency (GSA), Defense Information Systems Agency (DISA), Department of Defense Dependent Schools (DODDS), Army and Air Force Exchange Service (AAFES), and commercial activities which enter into materiel and service contracts with DoD, and activities of other Federal Agencies which maintain logistics support arrangements with DoD (Chapter 1, page 1-1). This policy states that Service/Agencies will "designate an activity within their Service/Agency to serve as their SP" (Chapter 1, page 1-6), and that each Service/Agency SP will "perform a complete and final edit to assure the accuracy of a transaction prior to submission to the Central Control Point (CCP)" (Chapter 1, page 1-7).

Accordingly, based on DoD 4000.25-6-M, each Military Service, Defense and Federal Agency, has responsibility for its own DoDAAC files and the same authority as DLA when dealing with DAASC regarding their respective DoDAACs. DLA has no authority to direct the Defense Automatic Addressing System Center (DAASC) to alter another agency file in any way. Any changes to the Air Force or Marine Corp DoDAAC information or files must be directed by their own Sps. We recommend that "The Recommendation for Corrective Action" section for Air Force and Marine Corp be amended to control this action for their respective Service. Regarding DLA, per B, above, we have established extensive

Redirected
and
Renumbered
as
Recommend-
ation B.3.a.

Defense Logistics Agency Comments

procedures for our own SP, (DAASC) to identify invalid Contractor DoDAACs. Additionally, we have performed a review of all DPSC contractor DoDAACs. As the Audit Review of inactive DoDAACs indicated that a problem only existed at DPSC, we believe no further DLA action is required.

DISPOSITION:

- () Action is ongoing. Estimated Completion Date:
 (X) Action is considered complete.

INTERNAL MANAGEMENT CONTROL WEAKNESSES:

- (X) Nonconcur.
() Concur; however, weakness is not considered material.
() Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

MONETARY BENEFITS: None.

DLA COMMENTS:

ESTIMATED REALIZATION DATE:

AMOUNT REALIZED:

DATE BENEFITS REALIZED:

ACTION OFFICER: Darlene DeAngelo, MMSLR, x44012, 6 Jan 95

REVIEW/APPROVAL: Charles W. Masters, Col, USAF, Act MMSD, 9 Jan 95

COORDINATION: L. Coulter, DDAI, X49605, 10 Jan 95

Bryant, DDAI, X49605, 10 Jan 95

DLA APPROVAL:

Darlene DeAngelo

Defense Logistics Agency Comments

Final Report
Reference

TYPE OF REPORT: AUDIT

DATE OF POSITION: 18 JAN 1995

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO: Draft Report Management of Access to the
DoD Supply System (Project No. 3CK-0031.01)

RECOMMENDATION B.2.c.(2): We recommend that the Director, Defense Logistics Agency, establish procedures for the Director, Defense Automatic Addressing System Center, to identify inactive civil agency DoD activity address codes and request the Federal Supply Service, General Services Administration, to update the status of the DoD activity address codes by contacting the sponsoring activities. If the General Services Administration does not receive confirmation that the codes are valid, the DoD activity address codes should be canceled.

Redirected
and
Renumbered
as
Recommend-
ation B.3.b.

DLA COMMENTS: Partially Concur. Per B.2.c.(1) above, DLA has no authority to direct information or alter other agencies files. We recommend that you provide this recommendation to the GSA via the Office of Inspector General, Assistant Inspector General for Audits, GSA.

DISPOSITION:

- () Action is ongoing. Estimated Completion Date:
(X) Action is considered complete.

INTERNAL MANAGEMENT CONTROL WEAKNESSES:

- (X) Nonconcur.
() Concur; however, weakness is not considered material.
() Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

MONETARY BENEFITS: None.

DLA COMMENTS:

ESTIMATED REALIZATION DATE:

AMOUNT REALIZED:

DATE BENEFITS REALIZED:

ACTION OFFICER: Darlene DeAngelo, MMSLR, x44012, 6 Jan 95

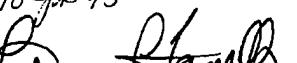
REVIEW/APPROVAL: Charles W. Masters, Col, USAF, Act MMSD, 9 Jan 95

COORDINATION: L. Coulter, DDAI, X9605, 10 Jan 95

Bryant, DDAJ, 10 Jan 95

DLA APPROVAL:

18 Jan 1995


LAWRENCE E. FARRELL, JR.
Major General, USAF
Principal Deputy Director,

Defense Logistics Agency Comments

Final Report
Reference

Revised and
Renumbered
as Recom-
mendation
B.2.c.

TYPE OF REPORT: AUDIT

DATE OF POSITION: 18 JAN 1995

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO: Draft Report Management of Access to the
DoD Supply System (*Project No. 3CK-0031.01*)

RECOMMENDATION B.2.d.: We recommend that the Director, Defense
Logistics Agency, update the status of inactive DoD activity
address codes identified by the Defense Automatic Addressing
System Center.

DLA COMMENTS: Partially concur. We have updated the status of
all our DoDAACs. However, per B.2.c.(1) above, DLA has no
authority to direct the alteration of the Central Control Point
(CCP) file for any other agency. We recommended that you direct
the other Services to update their files accordingly.

DISPOSITION:

- () Action is ongoing. Estimated Completion Date:
(X) Action is considered complete.

INTERNAL MANAGEMENT CONTROL WEAKNESSES:

- (X) Nonconcur.
() Concur; however, weakness is not considered material.
() Concur; weakness is material and will be reported in the DLA
Annual Statement of Assurance.

MONETARY BENEFITS: None.

DLA COMMENTS:

ESTIMATED REALIZATION DATE:

AMOUNT REALIZED:

DATE BENEFITS REALIZED:

ACTION OFFICER: Darlene DeAngelo, MMSLR, X44012, 6 Jan 95

REVIEW/APPROVAL: Charles W. Masters, Col, USAF, Act MMSD, 9 Jan 95

COORDINATION: L. Coulter, DDAI, X49605, 10 Jan 95

DLA APPROVAL:

18 JAN 1995



ROBERT R. POWELL, JR.
Major General USAF
Commander, DLA
Headquarters, DOD

Defense Logistics Agency Comments

Final Report
Reference

TYPE OF REPORT: AUDIT

DATE OF POSITION: 17 Jan 95

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO: Draft Report Management of Access to the
DoD Supply System (Project No. 3CK-0031.01)

RECOMMENDATION B.2.e.: We recommend that the Director, Defense Logistics Agency, direct the Commander, Defense Personnel Support Center, to comply with Defense Logistics Agency Regulation 4000.4, section VI, paragraph B.8., which requires that Defense Logistics Agency field activities submit Defense Logistics Agency commercial contractor changes or deletions of DoD activity address codes within 10 days after contract award or closure.

Renumbered
as
Recommend-
ation B.2.d.

DLA COMMENTS: Concur. The Commander, Defense Personnel Support Center, is being directed to use the Defense Logistics Agency Regulation (DLAR 4000.4). SEE ATTACHED LTR

DISPOSITION:

- () Action is ongoing. Estimated Completion Date:
(X) Action is considered complete.

INTERNAL MANAGEMENT CONTROL WEAKNESSES:

- () Nonconcur.
(X) Concur; however, weakness is not considered material.
() Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

MONETARY BENEFITS: None.

DLA COMMENTS:

ESTIMATED REALIZATION DATE:

AMOUNT REALIZED:

DATE BENEFITS REALIZED:

ACTION OFFICER: Darlene DeAngelo, MMSLR, x44012, 6 Jan 95

REVIEW/APPROVAL: Charles W. Masters, Col, USAF, Act MMSD, 9 Jan 95

COORDINATION: L. Coulter, DDAI, X49605, 10 Jan 95

DLA APPROVAL:

Approved, DPA, 12 Jan 95



LAWRENCE E. WARRELL, JR.
Major General, USAF
Principal Deputy Director

Defense Logistics Agency Comments

	<p>DEFENSE LOGISTICS AGENCY HEADQUARTERS CAMERON STATION ALEXANDRIA, VIRGINIA 22304-6100</p>	
IN REPLY REFER TO MMS	9 JAN 1995.	
<p>SUBJECT: Invalid Defense Personnel Support Center (DPSC) Department of Defense Activity Address Codes (DoDAACs)</p>		
<p>TO: Commander Defense Personnel Support Center</p>		
<p>1. Reference:</p>		
<p>a. Office of the Inspector General (OIG) Department of Defense (DoD) Draft Audit Report 3CK-0031.31 (Enclosure 1).</p>		
<p>b. Defense Logistics Agency Regulation number 4000.4 (DLAR 4000.4), 23 Jul 1992, Subject: Activity Address Data in the DoD Activity Address Directory (DoDAAD) and the DoD Activity Address File (DoDAAF) (Enclosure 2).</p>		
<p>2. On 14 June 1994, we were advised by the OIG DoD that they had identified twenty-seven (27) active but invalid DPSC Contractor DoDAACs, and an additional three (3) active DoDAACs held by bankrupt contractors. After receiving this information, DLA worked closely with your staff to delete these DoDAACs from the DoD supply system. In an effort to preclude future occurrences of this situation, DLA held an Agency-wide DoDAAC Monitors Workshop 1-2 Nov 1994; your Center was represented at the workshop. At this workshop the DLAR 4000.4 (reference 1b.) was reviewed and issues revolving around Contractor DoDAACs thoroughly discussed.</p>		
<p>3. The OIG DoD has requested that we advise you of this situation. They have requested also that you direct your staff to use the DLAR 4000.4 and that they comply specifically with Section VI, Paragraph 8, Number 8, which requires that DLA field activities submit DLAR commercial contractor changes or deletions of DoDAACs within ten days after contract award or closure.</p>		

Defense Logistics Agency Comments

9 JAN 1995

MMS PAGE 2

SUBJECT: Invalid Defense Support Center (DPSC) Department of
Defense Activity Address Codes (DoDAACs)

4. Our staff is ready to assist you in any way possible. You may direct your questions
concerning this issue to Darlene DeAngelo, MMSLR, (DSN) 667-7609, COMM
(703) 617-7609.

Encl

cc: DoD/DAIG-AUD (CM) (M. Krulikowski)
DoD/OIG (L. Pierce)
DPSC-F (P. Zebrowski)

Very Respectfully
D. Marshall

MARSHALL H. BAILEY, Ph.D.
Associate Executive Director
Defense Management and Policy Group

Defense Finance and Accounting Service Comments



DEFENSE FINANCE AND ACCOUNTING SERVICE

1931 JEFFERSON DAVIS HIGHWAY
ARLINGTON, VA 22240-5291

DFAS-HQ/AB

JAN 9 1995

MEMORANDUM FOR OFFICE OF THE INSPECTOR GENERAL, DOD
(ATTN: DIRECTOR, CONTRACT MANAGEMENT
DIRECTORATE)

SUBJECT: DoD Draft Report, "Management of Access to the DoD Supply System," dated November 10, 1994 (Project Code 3CK-0031.01)

Your memorandum of November 10, 1994, provided the subject draft report and requested our comments on recommendation B.4. Our comments are included in the attachment.

If additional information is required, my point of contact is Mr. Ron Bishop, DFAS-HQ/AB, at (703) 607-0741.

[Signature]
Daniel Turner
Deputy Director for Business Funds

Attachment

Defense Finance and Accounting Service Comments

Final Report
Reference

Draft Report
MANAGEMENT OF ACCESS TO THE DOD SUPPLY SYSTEM
PROJECT CODE 3CK-0031.01

- **Recommendation B.4:** We recommend that the Director, Defense Finance and Accounting Service - Cleveland Center issue policy that establishes DoD activity address code validation procedures so that verification letters are sent before the contract expiration date. If the service point does not receive confirmation that the DoD activity address codes are valid, the codes should be automatically canceled the same date that the contract expires.
- **DFAS Response:** Concur in principle. Defense Finance and Accounting Service, Cleveland Center (DFAS-CL) cannot issue policy that establishes DoD activity address code validation procedures. Any such policy issuance must be included in DoD 4000.25-6-M, Department of Defense Activity Address Directory (DODAAD) of July 1994, which provides DoD policy for maintenance of the DODAAD. Navy implementation of these policies are currently contained in NAVCOMPT Manual, Volume 2, Chapter 5, paragraph 025005.3. Incorporation of these requirements, along with the other Component/Defense Agency implementing procedures, into the DoD Financial Management Regulation (DoD 7000.14-R) will result in a single DoD standard procedure for the management and validation of all DODAACs. Since the system currently in place for management of Navy DoDAACs is being replaced, functional requirements will be developed by DFAS-CL for inclusion of the recommended procedure within the new system. Systems specifications and related programming should be completed by September 30, 1995. In the interim, DFAS-CL has developed and implemented a manual alternative procedure which will provide for validation and cancellation of Navy contractor Department of Defense Activity Address Codes (DODAAC) as recommended.

Revised
and
Renumbered
as
Recommend-
ation B.5.

Attachment

Audit Team Members

Paul J. Granetto
Joseph P. Doyle
Linda A. Pierce
Beth A. Kilborn
David L. Spargo
Edward J. Lustberg
Lawrence N. Heller
Mark A. Krulikowski
Robin A. Hysmith

INTERNET DOCUMENT INFORMATION FORM

A . Report Title: Management of Access to the DOD Supply System

B. DATE Report Downloaded From the Internet: 02/02/99

C. Report's Point of Contact: (Name, Organization, Address, Office Symbol, & Ph #): OAIG-AUD (ATTN: AFTS Audit Suggestions)
Inspector General, Department of Defense
400 Army Navy Drive (Room 801)
Arlington, VA 22202-2884

D. Currently Applicable Classification Level: Unclassified

E. Distribution Statement A: Approved for Public Release

F. The foregoing information was compiled and provided by:
DTIC-OCA, Initials: __VM__ **Preparation Date** 02/02/99

The foregoing information should exactly correspond to the Title, Report Number, and the Date on the accompanying report document. If there are mismatches, or other questions, contact the above OCA Representative for resolution.